

P U B L I C    H E A R I N G

before

SENATE STATE GOVERNMENT & FEDERAL & INTERSTATE RELATIONS COMMITTEE

on

SENATE CONCURRENT RESOLUTIONS NO. 126, 127, 130, 131, 132 and 133

(Tax Reform)

Held:  
July 29, 1974  
Assembly Chamber  
State House  
Trenton, New Jersey

MEMBER OF COMMITTEE PRESENT:

Senator Eugene J. Bedell (Chairman)

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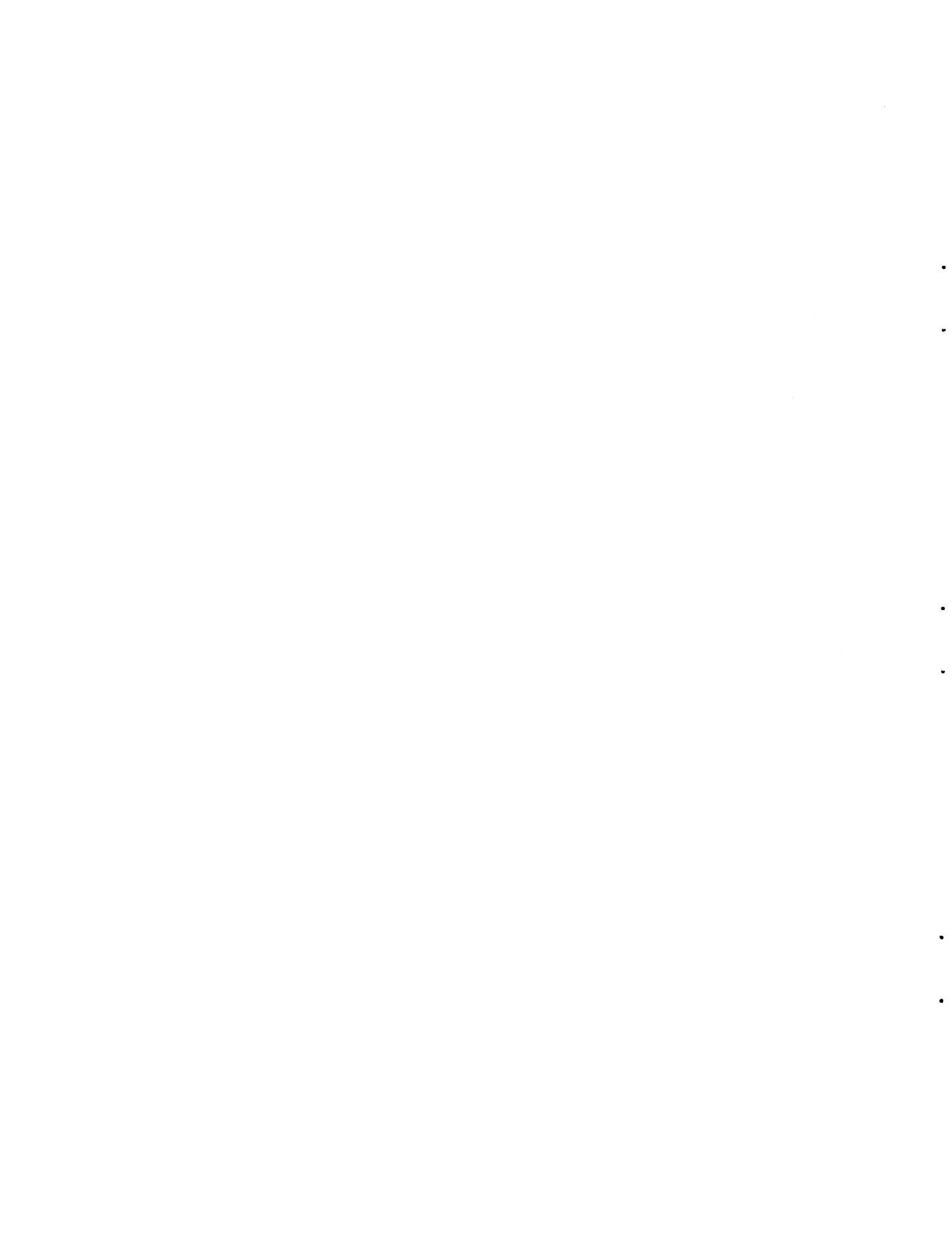
I N D E X

	<u>Page</u>
Frank W. Haines, Executive Director New Jersey Taxpayers Association	1 & 9
Louis Applegate New Jersey Chamber of Commerce	6 & 10
Richard Solyom, Legislative Vice President Federation of New Jersey Taxpayers	6

STATEMENTS SUBMITTED

Robert Woodford, Assistant Vice President New Jersey Manufacturers Association	29
Mary Nash, Fiscal Policy Chairman League of Women Voters of New Jersey	35

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SENATOR EUGENE J. BEDELL (Chairman): Ladies and Gentlemen, this public hearing of the Senate State Government and Federal and Interstate Relations Committee is now in order.

The purpose of this hearing is to consider six Senate Concurrent Resolutions, proposing amendments to the Constitution of the State of New Jersey concerning tax reform.

For the record let me insert into the record the numbers of the Senate Concurrent Resolutions. They are: SCR-126, 127, 130, 131, 132 and 133.

At this time I would like to call upon Mr. Frank Haines of the New Jersey Taxpayers Association.

F R A N K W. H A I N E S: Good morning, Mr. Chairman. My name is Frank W. Haines. I am the Executive Director of the New Jersey Taxpayers Association, a non-profit, non-partisan governmental research organization, incorporated in 1930.

NJTA's views on other proposed Constitutional amendments relating to property tax classification, expansion of exemptions and deductions, and on dedication of revenues were presented at hearings held on July 16th and on July 19th. Some of the amendments which were considered at those hearings are similar in principle to those on the schedule today. Since hearing testimony from the other two hearings have been, I understand, transcribed and, I think, distributed to all legislators, my comments today will be limited to avoid repetition and on the assumption that some of the Senators will have reviewed the reports of other hearings.

Property Tax Classification - Background information on property tax classification, views of various official study groups at the State and Federal level pointing out the pitfalls of classification, and NJTA's position were set forth on pages 85 to 92 of the Association's recent

report "The New Jersey Tax Climate". This was distributed to each member of the Legislature early this month. Appended hereto is a further statement on the Classified Property Tax from a Report of the Property Taxation Committee of the National Tax Association, presented at its 65th annual conference in 1972. The title of the Report is "The Erosion of the Ad Valorem Real Estate Tax Base". I won't read that. That is just a further critique of the problems of property tax classification. (see page 9)

The New Jersey Taxpayers Association reiterates its opposition to any form of real property classification which will single out business for taxation at a higher rate than other classes of property.

Among reasons for NJTA's position are:

1. Classification has no place in an industrial State like New Jersey, which relies so extensively on property taxes.
2. Addition of property tax classification to an already high business tax burden will be a warning to any business to avoid New Jersey.
3. It can create an administrative monstrosity.
4. Classification is not based on any sound economic or ethical theory or practice.

I submit that at the heart of the classification problem, as we view it, and the problem of taxation in New Jersey is the item of jobs. Today, I think the question of jobs is very much in evidence.

SENATOR BEDELL: Ladies and Gentlemen, I am going to have to insist upon quiet in this Chamber. This is a public hearing. If you can't conduct your business in quiet, I am going to have to clear the room.

Proceed, Mr. Haines.

MR. HAINES: Thank you.

So, we submit that with the business economy in

the position it is in today - a very disadvantageous position - and with the high unemployment, it is important not to do anything that will further create economic problems in the State of New Jersey. We feel that classification is one of those things which will add further economic problems.

In your consideration of classification amendments, such as SCR-127, 130 or 133, we ask you to study carefully data showing the existing assessment practice in New Jersey and evaluate whether a uniform and equitable system of apportionment, based on the present data systems, is possible in a short period of time and what the cost would be to develop an adequate equitable system.

As an example of the things that need attention, we point out that there is now no uniform method among New Jersey's 21 counties for equalization to apportion county taxes. I should point out there is no single uniform method. The courts have held that a variety of approaches are acceptable. We feel if you are going to any statewide tax, whether it be classified or otherwise, a single system of apportionment for county taxes and apportionment for statewide taxes is essential.

Further, in the present State equalization procedure, there is no method for obtaining sample appraisals for a property class in which there is no sales sample. This is an item of significant cost if it is decided to go into sample appraisals. This was started back in the early 50's but because of the cost and other objections, this process was stopped.

Finally, we have now no uniform base year for assessing or revaluation purposes and this also creates a problem at times when you are looking for interdistrict equalization.

Each of those items is a major administrative matter which requires considerable evaluation and study.

Recognizing that a high quality initial assessment is of key importance in any assessing system, we suggest that 567 taxing districts with over 900 assessors, many of them part-time, is too many if you are going into statewide property taxation.

On SCR-126 and SCR-132, which would expand property tax deductions to senior citizens and disabled persons, the Association's testimony on July 16th, as in past years, questioned the practice of frequent Constitutional amendments with complex details concerning exemptions. We recommend that the Constitution be kept simple by using broad language permitting the Legislature to enact deductions by statute. This will eliminate frequent statewide referenda with related costs, but provide for speedier action by law.

Article VIII, section I, paragraph 4, has already been amended four times since 1960 and changes will become more frequent as further unnecessary details continue to be added.

The potential cost of expanding deductions under these SCR's has not been made public. The Association recommends that fiscal notes be obtained on each expansion of deductions so that the added cost of these proposals to both State Government and municipalities is known prior to consideration.

It should be recognized that property tax exemptions, as well as rate or ratio classification, are designed to give favored treatment to a particular class or classes of taxpayers. The usual objective is to give some select group or even the entire group of homeowners a "tax break". Instead of shifting the burden, however, it often becomes the situation that while homeowners may appear to be getting a break, they are, in fact, victims more hurt than harmed by the practice.

SCR-131 is an amendment to Article VIII, Section IV, which adds a new paragraph to dedicate the net proceeds

of any statewide tax for education. The Taxpayers Association is opposed to any dedication of revenues, particularly of major tax sources. This policy dates to the 1947 Constitutional Convention hearings at which NJTA joined with other groups in urging a constitutional prohibition on dedication of funds. Principal reason, among many, against dedication, especially Constitutional deduction, is the need for budget flexibility.

In testimony on ACR No. 180 on July 16th - 180 being a broad enabling provision to permit the Legislature to pass laws dedicating revenues to a specific purpose or purposes - the Association stated that such an amendment was totally unnecessary inasmuch as the Constitution, contrary to popular belief, contains no prohibition against dedication, thus permits it.

We make that same point today and invite you to obtain further legal clarification, if in fact, it has not already been provided to Chairman Perskie of the Assembly Committee on Taxation.

If SCR No. 131 is to receive serious consideration, it certainly should be written so that it is capable of uniform interpretation and understanding by someone with at least a college education which I submit it is not, in its present form; it is very hazy in terms of exactly what the intent is.

Without going into any further detail on any of these matters, because we are already on the record on these points, I will conclude with our appreciation for the opportunity of testifying before you today.

SENATOR BEDELL: I want to thank you, Mr. Haines, it is always a pleasure to have you come before us and give us the benefit of your views and your organization's views. Thank you very much.

MR. HAINES: Thank you very much, sir.

SENATOR BEDELL: The Chair would like to call upon

Mr. Louis Applegate, New Jersey Chamber of Commerce.

L O U I S   A P P L E G A T E: Thank you. We would like to support the testimony made by the previous speaker, representing the New Jersey Taxpayers Association.

The State Chamber of Commerce is strongly against classified property taxes. We feel that since industry is already paying approximately 40% of all local taxes and almost that much in State taxes, that we are doing our full share.

I'd like to file, for the complete testimony, a summary on the use of classified property taxes - or against the use of classified property taxes - which has been prepared by a special tax committee of the State Chambers of Commerce throughout the country.

In that, it summarizes, in detail, our position, supporting our stand against the classified property tax resolution. Thank you very much.

(see page 10 )

SENATOR BEDELL: Thank you very much, Mr. Applegate.

The Chair would like to call upon Mr. Richard Solyom, Chairman of the Federation of New Jersey Taxpayers Association.

R I C H A R D   S O L Y O M: Mr. Chairman, Members of the Committee, my name is Richard Solyom, and I am the Legislative Vice President of the Federation of New Jersey Taxpayers.

I came here today with only one thought in mind and I would like to quote to you what a very good friend of mine thinks about the allocation of monies and the concept of requiring a person to pay property taxes on his ability to pay. I would like to quote to you what my friend, Herb Miller, thinks. Herb Miller is known as the "homestead kid" because he is the one who has been promoting --

SENATOR BEDELL: Ladies and Gentlemen, I am going

to have to ask your cooperation again. This is a public hearing. If you are not going to be able to conduct your business in quiet, I am going to have to clear the Chamber. Let's have a little quiet, please.

Proceed, Mr. Solyom.

MR. SOLYOM: I believe that requiring a person to pay property taxes on the ability to pay would be equivalent to driving a stake through the heart of our Democracy. This is not the American way to do business. This is not the American way to collect taxes. I think that it is unjust to require one segment in our society to pay more than another segment.

We really should have, in this State, a system of taxation which taxes everyone equitably on the amount that he produces as he goes through life. Everyone living engages in production of either goods or services as he lives. It is this effort to produce which enables him to earn a living. He is living in a society in which he is paying the taxes to provide for the government of the society in which he is living. Therefore the most just and equitable system would be one which would tax a person on the amount that he produces, the amount that he contributes to the economy of the society in which he is living.

Such a system has been invented, has been proposed, by a man living in Plainfield, New Jersey. When he first proposed this system it made not a ripple of interest in this country but the European Finance Ministers heard about it and they came over here and they took it back to Europe and they twisted it and they perverted it into what is now being used in every country in Europe as a rebatable national sales tax. This is not the type of tax that I have in mind.

The one that I have in mind is the one that Mr. W. W. Mount of Plainfield originated in the 1930's and

he called it the value added tax. The value added tax in its true form, not the European, bastardized, perverted form is probably the most equitable method of raising revenue that has ever been devised. I recommend that this Committee take a hard, long, careful look at this proposal because it could be the answer to all our problems today. I thank you.

SENATOR BEDELL: Thank you very much, Mr. Solyom. We appreciate your stopping by.

Is there anyone in the Chamber who wishes to testify on these Senate Concurrent Resolutions at this time?

(no response)

There being none, I declare this hearing closed.

(hearing concluded)

#### F. *The Classified Property Tax*

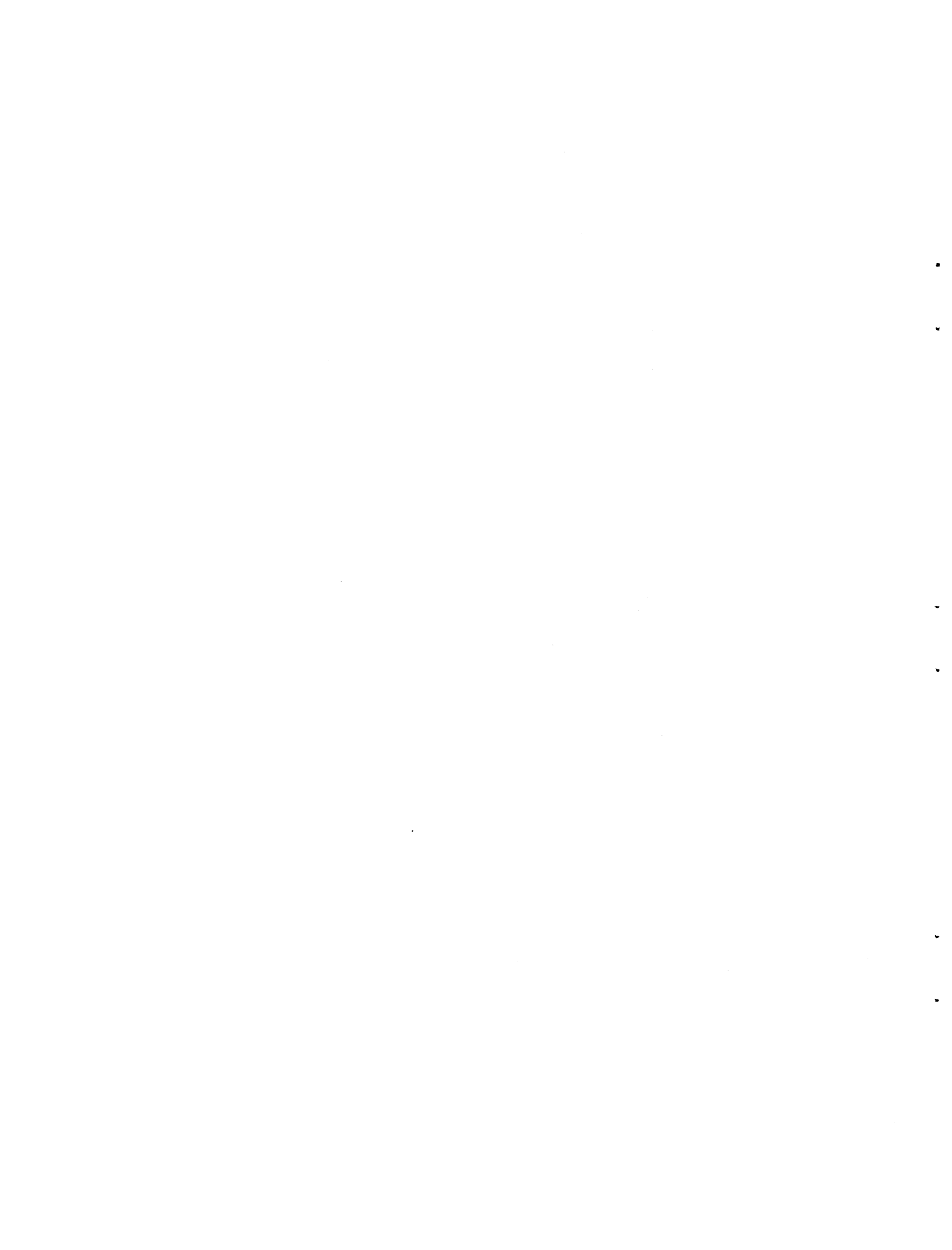
While the erosion of the real property tax base has proceeded in a haphazard manner, as a general rule, an attempt has been made in several states to provide for partial exemptions of various classes of property in accordance with a systematic and "justifiable" plan. Thus, the "classified property tax" is based upon the view that property can be reasonably classified according to its function (or use) or ownership and that property falling in certain classes should be partially and differentially exempted compared with property falling within other classes. The partial and differential exemption can be either in terms of assessment ratio or tax rate.

However, the classified property tax is not solidly grounded in the theory and practice of economics or ethics.<sup>87</sup> There is great difficulty in finding any sound theoretical basis for treating various classes of property differentially according to use. Equally strong cases can be made for taxing either business or residential property more heavily. Once the uniformity rule is abandoned with respect to land use, the tax policy maker is at sea without a compass to guide him.

In addition to the lack of any sound theoretical basis for a classified tax, the practical problems are overwhelming. In the first place, the differential treatment that will be enacted initially will very likely represent the political strengths of various property users, and not what is assumed to be in the public interest in terms of equity or economics. There is little likelihood that currently exempt property will be placed on the tax roles, even with preferential tax treatment. Moreover, as the political power of property users shift, pressures are exerted to make changes in differential treatment in favor of the stronger groups and at the disadvantage of weaker groups. Each legislative session witnesses a host of special groups seeking preferential tax treatment.

Legislators and top administrators find themselves spending a great deal of time, energy, and political capital merely to hold back the onrush of special-favor seekers. Before long a classified property tax structure is bound to be riddled with the questionable favoring of many property uses. Since all requests of the latter will be to lower the assessment ratios or rates of taxation and not to place presently exempt property on tax roles, the classified property tax lends itself to an erosion of the tax base that is even greater than if the property tax had adhered to the uniformity rule.

<sup>87</sup> Hatfield, Rolland F., "Minnesota's Experience with Classification," *The Property Tax: Problems and Potentials*, Tax Institute of America, 1967, pp. 239-244.



**COMMITTEE ON STATE TAXATION**  
Council of State Chambers of Commerce  
1028 Connecticut Avenue, Room 1018  
Washington, D. C. 20036

**PROPERTY TAX CLASSIFICATION**

A Report

by

The COST Property Tax Subcommittee

March 2, 1973

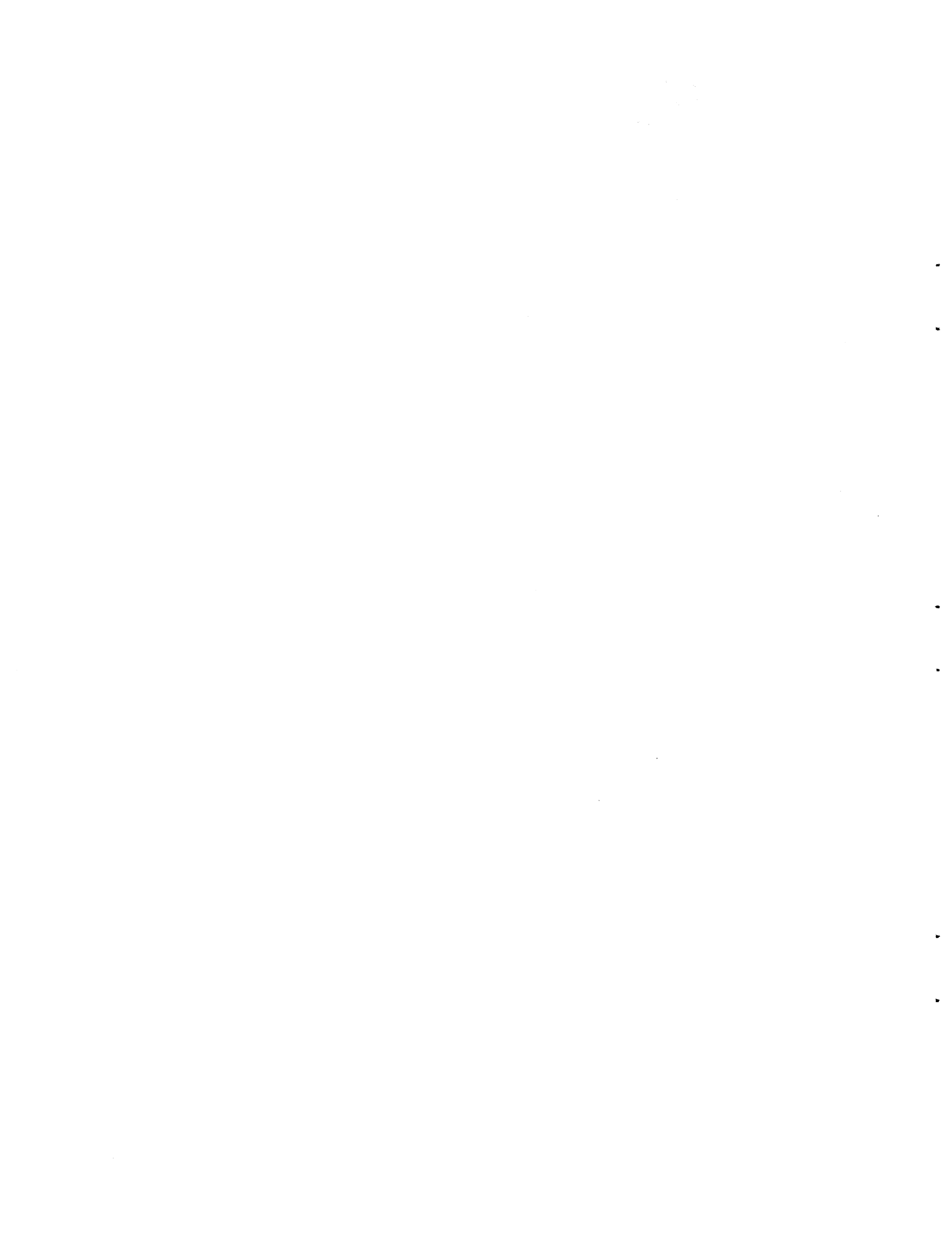
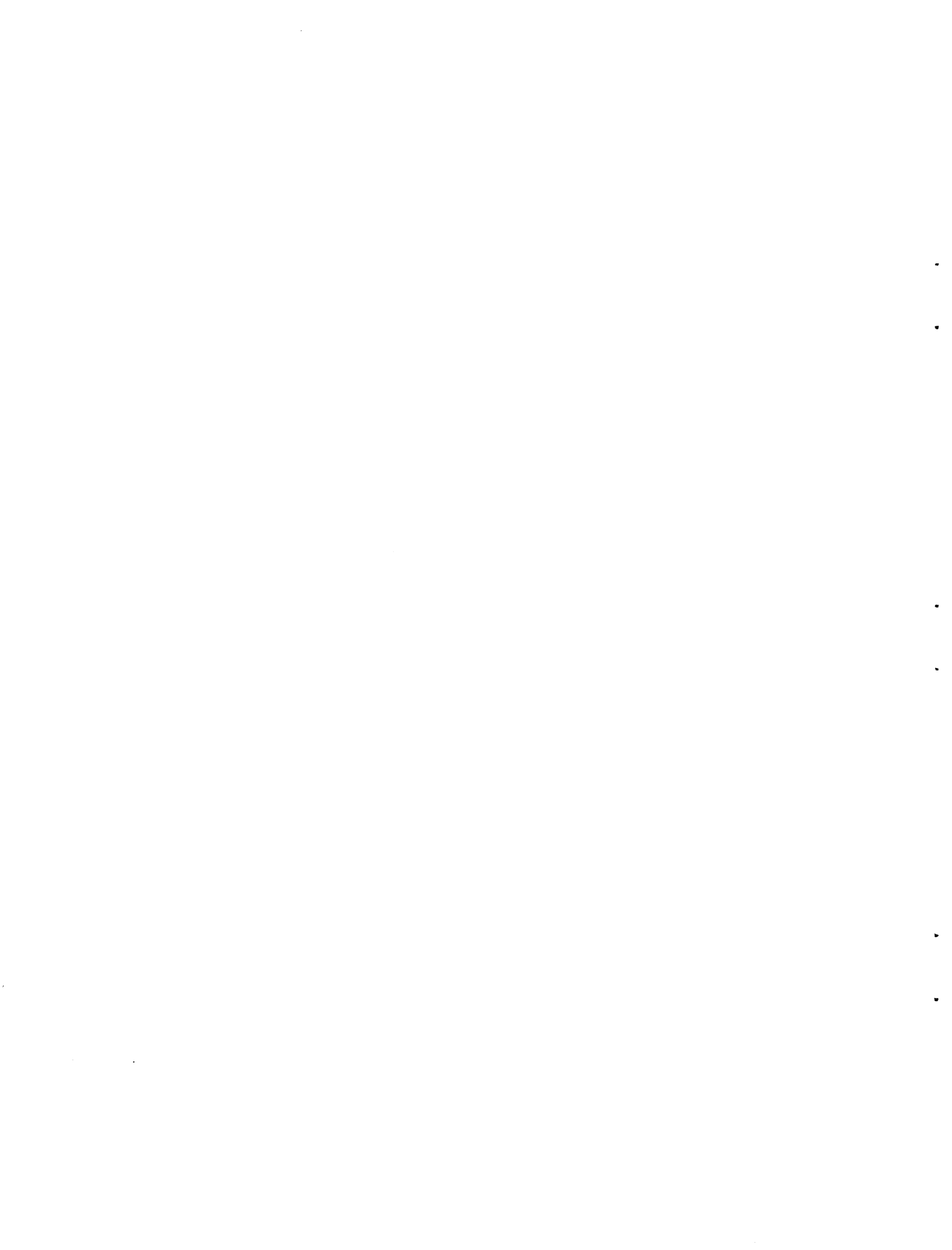


TABLE OF CONTENTS

	<u>Pages</u>
Summary - - - - -	2
Introduction - - - - -	2-4
The Role and Nature of the Property Tax - - - - -	4-5
Fairness and Equity - - - - -	5-8
Uniformity and Equity - - - - -	6
Benefits Derived - - - - -	6-7
Basic to Local Government - - - - -	7
Balanced Tax System - - - - -	7
Indirect Taxation of Consumers - - - - -	8
Unsound Economic Policy - - - - -	8-10
Adverse Effect on Economic Growth and Jobs - - - - -	8-9
Erosion of the Tax Base - - - - -	9
Richer Districts Get Richer - - - - -	9-10
Administrative Problems and Complexities - - - - -	10-12
Minnesota Illustrates Problems - - - - -	10-11
Taxpayer Administrative Difficulties - - - - -	12
Revenue Estimating More Complex - - - - -	12
Increased Litigation and Uncertainty - - - - -	12
Conclusion - - - - -	13
Appendix A: Discrimination - - - - -	14-17
Compounds Underassessment Discrimination - - - - -	14-15
Equalization Compounds Discrimination - - - - -	15-16
Examples - - - - -	17



## SUMMARY

1. Although it is recognized that there is room for improvement in the property tax, it would be infinitely worse if generally applied on a classified basis as distinguished from uniform application to all property according to its value, and without regard to the identity or status of the owner.
2. The uniform property tax is part of a balanced tax system - classification upsets this balance and creates inequities.
3. Court decisions are stimulating consideration of greater use of statewide taxes for local school financing. Greater reliance upon State property taxes may generate strong legislative pressures to shift to industrial, commercial and utility property part or all of the tax burden for school purposes presently borne by residential, farm, and undeveloped property.
4. Classification schemes undermine a philosophy of tax uniformity and equity which has served as the foundation of property tax policy for two centuries. There is no sound theoretical basis for classification - once the uniformity rule is abandoned decision by political expediency is the result.
5. Classification is contrary to the benefit theory of taxation that is a basic element of the property tax - it results in situations where properties benefited least are taxed most.
6. If the local residential property tax is removed or substantially reduced through a system of classification, the interest of the average citizen in local government is likely to be greatly diminished.
7. Classification is unsound economic policy since it adversely affects economic growth and jobs and erodes the tax base.
8. Classification tends to shift additional local property taxes to wealthier areas thereby compounding critical financial inequalities including the problem of public school financing now before the courts.
9. Classification results in extremely complex administrative problems. It increases present underassessment discriminations, further confuses procedures, and makes revenue projection more difficult.
10. Classification increases litigation and uncertainty; it greatly compounds controversy over categorization of property. This is contrary to the desirable objectives of simplicity and stability in property tax administration.

## INTRODUCTION

### The Property Tax

For 1972 the property tax produced over \$41 billion dollars for local purposes -- some 40% of the combined revenues from all State and local taxes.

The property tax has a greater direct impact on the American taxpayer than any other levy. Not only is it the largest tax for many, but it is usually highly visible, for it customarily is paid in a lump sum amount, unsoftened by such palliatives as income tax withholding, or the dibs-and-dabs payment of sales tax.

The purposes for which the property tax is spent are also of immediate concern to the taxpayer: It meets over half of the cost of educating his, or his neighbor's, child, most of the cost of the local police force, and the expense of fire protection. Add to these most of the other items that enter into the budgets of local government and the critical role of the property tax is conclusively established.

So much exempt property exists that in some taxing units the value of non-taxed property approaches, or even exceeds, the value of property subjected to taxation. For example, the property tax does not apply to government, churches, or schools, or non-profit hospitals, or Boy Scout camps, etc.

### Identification With Local Control

The property tax is identified with local control. Anyone can walk into the Assessor's Office on Main Street and open the books to his and his neighbor's assessments. The tax is administered out of this office, and though the Assessor, or his staff, may never have been seen on the premises, and may or may not have received professional training, everyone knows that he is in some way responsible for setting the taxable value of his property. Further, the taxpayer can go before a review board of his peers if he objects to the assessment.

The property tax is further complicated by the little understood process known as equalization which plays a part in most property tax assessment systems.

### "Classified" Property Tax Departs from Uniform Application

Not only does the property tax raise vast amounts of money for the most fundamental and immediate needs of local communities, but it does so almost universally on the basis of uniform application to all sorts and descriptions of property in proportion to its dollar value. Apart from exemptions, the property tax law provides for no favoritism or discrimination except in a handful of States which have departed from uniformity by adopting some sort of "classified" property tax system by statute, constitutional provision, or both.

### Classification Does Not Correct Property Tax Weaknesses - It Worsens Them

There is an almost irresistible urge to castigate or praise the property tax with extreme and arbitrary statements. And while this is a questionable practice, it can be done with the property tax to an extent not justifiable as to any other major revenue source. For example, there is general accuracy in such epithetical or eulogistic statements as -

"The property tax is the most poorly administered of all taxes," or

"The property tax will be around for a long time because it brings in a lot of money," or

"The personal property tax is the worst of all business taxes."

This paper concerns only one aspect of the property tax. Its sole purpose is to urge with sound and justifiable reasons that, however good or bad the property tax may be, it would be infinitely worse if it were generally applied on a classified basis as distinguished from uniform application to all property according to its value, and without regard to the identity or status of the owner.

As will be seen in detail later in this paper, a classified property tax departs abruptly from both the legal basis of the tax and the historically accepted concept that it is levied against the property, not against the person.

To identify a classified property tax, it is a tax which places taxable property into a number of arbitrary categories, with each category being taxed on a basis that is preferential or discriminatory in relation to other categories. The most heavily taxed categories inevitably are business property, real and personal. The lightest tax is imposed on residential and agricultural property and undeveloped land.

### The Uniform Property Tax Is Part of a Balanced Tax System

Classification is wrong for numerous reasons which are explained later. Fundamental to the whole concept is the undeniable fact that the uniform property tax has evolved as an integral part of a system of taxation which has matured into a roughly balanced totality. To change the nature of the property tax drastically will inevitably create an imbalance replete with inequities which will continue until such time -- if ever -- as offsetting adjustments are made in other taxes in the system.

Illustrative of the foregoing is the fact that "ability to pay" as an element of our composite tax system is abundantly recognized in Federal, State, and local graduated income taxes. The primary concept of the property tax is to tax that wealth measured by the value of the property owned. What justification is there, then, in changing the property tax, through classification, into a presumed "ability-to-pay" tax?\* This creates an imbalance which can be

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\*It must be noted, however, that a property tax classified to discriminate against business property has not necessarily been placed on an ability-to-pay basis since not all businesses are profitable, and those which are profitable are not equally so.

rationalized only on the basis that the political muscle necessary to change a mature and balanced tax structure into a self-serving system is its own justification.

### Reasons for Concern With Classification Proposals

Why is there deep concern over property tax classification at this particular time?

Quite plainly, we foresee greater consideration of more extensive use of Statewide taxes for local school financing in the near future. If the multiplicity of court cases does not assure a mandated move in this direction, the general social and political discontent with the present system of financing public schools may provoke change over a somewhat longer period

In either event, it is probable that a shift of property taxes to the State level may generate legislative pressures to enact classified property tax systems aimed at shifting to industrial, commercial, and utility property part or all of the tax burden for school purposes presently borne by residential property owners and lessees, farmers and owners of undeveloped land.

All society, including business enterprises, receives long-term gain from a better-educated public, but the immediate and direct return from public education is to the student and his family. Therefore, all taxpayers are beneficiaries who should contribute to the expense of the educational system on a uniform basis. There is no justification for shifting even a part of the proportionate share to other taxpayers.\*

It is recognized, of course, that a classified property tax system may be adopted by a State for all purposes (e.g., West Virginia and Minnesota) and not alone for school financing.

Following is a detailed statement of the principal reasons why a classified property tax system should not be allowed to supersede the uniform system.

### THE ROLE AND NATURE OF THE PROPERTY TAX

An appreciation of the position of property taxes in the overall taxing scheme is helpful in evaluating the issue of property tax classification.

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\*It is recognized that Legislatures have granted, or may want to grant, property tax relief to certain groups such as the poor, aged, and infirm. Such relief, however, should not take the form of a classified property tax system. There are other means of providing special consideration for such groups, without undermining the basic principles of the property tax as does classification. Reports of the Advisory Commission on Intergovernmental Relations suggest and discuss various ways of providing such relief without resorting to classification. The Advisory Commission on Intergovernmental Relations was created by Act of Congress and is composed of representatives from the House and Senate, the Executive Branch, governors, mayors, State legislators and County officials.

The Federal government depends largely on the income tax with its high progressively graduated rates.

The majority of States depend largely on income and sales taxes. Many State income taxes also provide for progressive graduated rates. Also the "regressive" features attributed to sales taxes have been eliminated in many States by exempting basic necessities such as food, clothing and utilities, or by granting income tax credits for sales taxes paid.

While it is not uncommon in recent years for governments below the State level to increase their revenue raising power through the enactment of local income or sales taxes, or both, by far the preponderance of local revenue has historically been raised -- and continues today to be raised -- by the property tax.

Further, before property tax classification can be discussed intelligently there must be a common understanding of the true nature of the property tax. What is it? It is a tax "in rem" (against the thing). It is a tax on value-- on the value of the particular property against which the tax is levied. It is not a tax on persons (individuals or corporations). Thus, it should be levied without regard to ownership or the income of the current owner or user. Violation of these principles contradicts the basic concepts of the property tax.

Unlike the income tax where "ability-to-pay" is basic, the property tax is based primarily on the worth of the property -- that is, the proposition that those benefiting from education and municipal services should pay taxes measured by the value of their property.

The property tax is now under heavy attack as being "regressive" on the basis that it taxes a proportionately greater share of the income of taxpayers with low or fixed income. As a result of this questionable notion, and of very substantial and highly visible annual tax increases to support a never-ending escalation in expenditures by governments, denunciation of the property tax has reached an all-time high. Some States have responded to these protests by providing income tax credits, homestead exemptions, rebates to the elderly and similar devices -- the so-called "circuit-breakers." But notwithstanding such relief, a dangerous proposal is arising in many States to expand, by statute and, where necessary, constitutional amendment, the legal basis for discriminatory property taxation against business property known as "property tax classification."

#### FAIRNESS AND EQUITY

Classification for property taxation simply results in the taxation of certain property more or less than other property of equal value. Invariably this means relieving the non-business taxpayer by shifting part of his property tax to the business taxpayer.

Classification schemes undermine a philosophy of tax uniformity and equity which has served as the foundation of local tax policy in this country for nearly two centuries.

Property tax classification does not have a sound basis in economic theory and practice. There is great difficulty in finding any sound theoretical basis for treating various classes of property differently according to use or ownership. Fallacious arguments may be made for taxing either business or residential property more heavily. Once the uniformity rule is abandoned, the tax policy maker is at sea without a compass to guide him. This results in decision by political expediency.

Proposals for property tax classification are based upon the erroneous assumption that property can be reasonably classified according to its function (or use) or ownership and that property falling in certain classes should be given preferential treatment. This can be achieved either by assessing different classes of property at different percentages of value or by applying different tax rates.

### Uniformity and Equality

At the heart of property tax equity lies the concept of uniformity and equality of taxation. This is inextricably woven into the fabric of our Federal and State constitutional provisions, legislative mandates and judicial pronouncements.

Taxation represents the use of coercion for the common good. Under our system, governments are expected to act with justice and equality. This should be particularly evident in the exercise of taxing powers, for through taxation government is expected to effect an equitable sharing of its costs.

By application of this philosophy for countless decades, those responsible for formulating tax policy have sought to answer the critical question, "What constitutes fairness in sharing the costs of government?" This search for tax equity has been fundamental to our system.

Classification and taxation of certain property more or less than other equivalent property falls outside our traditions of uniformity and equality. The uniformity concept is destroyed by such practices and inequality of taxation, although admittedly in existence illegally today, is mandated and given legal sanction.

### Benefits Derived

A long-accepted proposition of property tax policy has been that taxes should be borne by properties benefiting from their expenditure, a principle certainly rooted in common sense. For it is reasonable that those directly benefiting from education and municipal services should bear a proportionate share of their costs.

Those having most to gain from a particular governmental service will, on the one hand, be more interested and involved in the improvement of the service and, on the other, maintain a reasonable approach toward expenditures.

It would be undesirable to separate the spending function from the control function. This would permit those who receive benefits to spend the taxes collected from others. By the same token it would be unwise to have those who finance services treat them in a miserly manner because they derive little direct benefit from them.

Classification proposals would further shift the burden to taxpayers on bases other than benefits received and could create situations where those who benefit least would be taxed most.

### Residential Property Tax Basic to Strong Local Government

When, as is likely to be the case under a classification system, the property tax burden is removed from -- or substantially reduced for -- homeowners, the foundation for strong local government and our form of democracy is undermined. One very significant reason that the property tax appears to be more unpopular than other taxes is because it is the one tax that the average taxpayer feels he can do something about. This is the case because the property tax is largely a local tax controlled by local officials and local voters.

If the property tax is removed from residential property, or even substantially reduced, the interest of the average homeowner in local government is likely to be greatly diminished. This important bulwark against wasteful and careless spending by local government will wither and collapse. The interest of concerned citizens is fundamental to the maintenance of our check and balance system.

### Balanced Tax System

An evaluation of the total tax burden imposed upon a taxpayer is necessary to determine whether he is shouldering his fair share. To shift the burden of one important tax without consideration of other taxes paid by the taxpayer assuredly would produce significant inequities.

Proponents of property tax classification often fail to consider that singling out this particular tax and failing to recognize the burdens imposed by income, sales and other taxes, result in an imbalance in the tax system and a decidedly inequitable result for certain taxpayers.

In recommending against property tax classification, the comprehensive report of the recent New Jersey Tax Policy Committee recognizes the balance that the unclassified property tax contributes:

"...the use by New Jersey of corporate and individual income taxes...responds to the argument that income producing property is better able to pay property taxes. Aside from the fact that such property may often be operated at a loss, the combination of property taxation and income taxation represents a reasonable balance in the tax structure..."

### Indirect Taxation of Consumers

The relative merits of direct or indirect taxation are worthy of mention in any discussion of tax equality. A shifting of property taxes from residential to business taxpayers through classification results in a shift from direct to indirect taxation and thereby camouflages the tax burden. Business in the long run must pass such increased costs on to the consumer if it is to survive.

### UNSOUND ECONOMIC POLICY

In addition to the fact that the classification of property for tax purposes is contrary to the basic principle of fairness and equity, it is unsound economic policy.

### Adverse Effect on Economic Growth and Jobs

"Despite the uncertainty as to the ultimate property tax incidence, one factor can not be ignored by State tax policymakers -- the real possibility that legally sanctioned tax discrimination against business will have an adverse effect on the State's economy." (From a Staff Report to the Advisory Commission on Intergovernmental Relations, Washington, D.C., August 31, 1972.)

This was recognized by the New Jersey Tax Policy Committee which in its report said:

"In an industrial state such as New Jersey, which depends upon a healthy economic environment for industrial development perhaps more than other states, any attempt to shift the tax burden from residential to commercial and industrial property by a legally sanctioned classification system would create a very damaging reputation for the state and seriously affect its future economy, employment and payrolls."

For many businesses the property tax is the largest single State or local tax. For this reason, and the fact that it constitutes a built-in mandatory and steadily growing cost of doing business, companies considering plant expansions, relocations, or new facilities carefully scrutinize their potential property tax before making such an investment decision. While many cost factors are considered in plant location decisions, property taxes are frequently the deciding factor for or against a given location.

State and local development authorities, Chambers of Commerce, and various trade associations are spending much time and money to make their communities attractive to potential new industrial and commercial investments. They point with pride to their fine civic developments, cultural opportunities,

ideal geographic location, and their many favorable economic factors. It is certain that the "red flag" of property classification -- a primary symptom of an unhealthy tax climate -- would often steer businesses elsewhere notwithstanding these progressive efforts to encourage business location.

If by enactment of classification systems the property tax portion of the cost of local government is shifted to capital-intensive industry, the increased tax cost, like any other cost of production, should be reflected in prices paid by the ultimate consumer. But in a free market economy, it may not, and in many cases will not, be possible to increase prices so as to absorb increased property taxes. The immediate result will be reduced profits or a loss. If losses continue, the business will go broke. The result will be fewer domestic jobs.

### Erosion of the Tax Base

Experience in the very few States with a classified property tax structure shows that there is constant and fervent pressure on legislators and administrators, for more favored classes with lower assessments and reduced tax rates. Even without any increase in spending, tax rates are forced higher and higher on remaining classes. Rolland Hatfield, former Minnesota Tax Commissioner, reports that this makes financing current governmental operations and borrowing for substantial capital improvements more difficult, and tends to cancel out additional taxes from rising valuations and new construction.

Even if the classification system is spelled out in the State's constitution, so that a legislature cannot easily and constantly revise it, the initial provisions, and the administration of them, are almost certain to result in erosion of the tax base. Also, further erosion could take place through constitutional amendments.

Any such erosion would be particularly untimely in the face of rising educational and other governmental costs. The situation would be materially worsened if the Supreme Court upholds the Serrano-Rodriguez concept.

### Richer Districts Get Richer

Due to zoning restrictions and other factors, the industrial and commercial property normally singled out for inclusion in the highest classification bracket is clustered in relatively few districts. Because of this concentration, the individual tax burden in such districts is lower than the average for the State and per pupil expenditures for schools are higher. Thus, classification tends to shift additional tax revenues to wealthier districts, thereby compounding the critical financial inequity problem of the public schools now before the courts in Serrano v. Priest, Rodriguez v. San Antonio Independent School District, and other cases.\*

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\*These decisions have ruled that the Equal Protection Clause of the Constitution requires that public education cannot be made a function of wealth, other than the wealth of the State as a whole. The United States Supreme Court has heard an appeal of the Rodriguez case and is expected to issue a decision this year.

The failure to accord business and industry the environment of equality and uniformity in the distribution of the property tax load only discourages industry from locating, expanding, or on occasion even remaining in the State. The obvious result is a restricted tax base, with additional individual tax load, and fewer jobs. Furthermore, the confidence of all taxpayers in their taxing officials and system is certainly diminished whenever it appears that any class or any taxpayer is subjected to discriminatory treatment.

#### ADMINISTRATIVE PROBLEMS AND COMPLEXITIES

The discussion of property tax classification would be incomplete without examining problems in administering a system which characteristically assesses property at varying levels, thus resulting in an uneven distribution of tax upon taxpayers. Although actual experience with classification is limited, it is obvious that the injection of new variables into any tax system will make equitable administration more difficult, collection more costly and increase rather than minimize potential areas of controversy. Classification compounds instead of curing many of the problems which have long plagued property tax administration.\*

#### Minnesota Illustrates Complex Administrative Problems

A classification system with numerous assessment levels coupled with varying tax rates for schools, counties, cities, etc., poses extremely complex problems in valuing property at different classification percentages, setting tax rates, and calculating tax bills for a State with hundreds of thousands of property parcels, and thousands of taxing jurisdictions. Although computerization and modern data system techniques can make the job easier, coordination with varying tax limitations provided under local statutes for necessary property tax relief such as exemptions for household goods, homesteads, open space, inventory, etc., becomes extremely difficult. The complex record-keeping jungle starts in the assessor's office but extends to the office of tax collector or treasurer thus pervading more than one governmental department. With the volume of documents and records and number of calculations involved, the potential for error is considerable and it becomes more expensive and burdensome to correct property tax records in a classification system with its many levels of assessment.

To illustrate an actual experience, even with the advent of sophisticated computer technology, the State of Minnesota has had poor experience in reducing the tax rate calculations by county auditors due to property classification and tax limitations in the law. Larger counties have systematized at considerable cost but smaller counties still find cost prohibitive. The lesson in Minnesota demonstrates that property tax administration will not become better and more efficient with classification. Classification will further add to the many diffi-

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\* For those who are interested, Appendix A contains a rather technical discussion of how classification compounds underassessment discrimination and how equalization procedures further aggravate the discrimination.

culties which already exist.\*

\* In the "Governor's Minnesota Tax Study" Rolland B. Hatfield, the present State Auditor and former Tax Commissioner, criticized Minnesota's classified property system as summarized below:

- "1. It erodes the property tax base so that the effect of rising valuations and increased construction are nullified.
- "2. It causes the property tax mill rate to be at least three times higher than it should be which places Minnesota's tax rates out of line with other states and makes it difficult to sell state and local bonds.
- "3. It shifts the burden of taxation every time a new class is created by the legislature so that the taxes of every owner are affected without his knowledge.
- "4. Because assessors do not use a uniform percentage of the true market value they have in fact created de facto classification which results in property tax burdens which are different from those intended by the legislature.
- "5. It is generally agreed by everyone who understands the classified system that there is no economic justification for placing property in different classes for tax purposes.
- "6. It uses the property tax system to subsidize certain industries and yet the exact amount of this subsidy is generally unknown.
- "7. There is no indication that the special preference given to homesteads has had any effect on homeownership in Minnesota.
- "8. The greatest criticism which can be made of the system is that there is really no place to logically stop.
- "9. This system of classification is unnecessarily costly and difficult to administer."

### Taxpayer Administrative Difficulties

Administrative difficulties are borne not only by State and local governments, but also by taxpayers. Taxpayers often have difficulty establishing whether uniform and equitable property tax treatment is being extended to them. Any class of taxpayers may have its properties appraised and assessed uniformly within its own classifications. However, if property in other classifications is underassessed (as in Exhibit A, for example) the aggrieved class bears an undue share of the total tax burden. To secure relief from such discrimination, a taxpayer in the aggrieved class has the extremely difficult job of presenting acceptable evidence of substantial and systematic underassessment in one or more of the remaining classes. This difficulty allows unintended benefits to accrue to certain property classes thereby destroying the principle of uniformity which should be the desirable objective in any property tax system.

### Classification Makes Revenue Estimating More Complex

Coupled with the obvious administrative complexities, the difficulties are increased when considered from the viewpoint of the legislative process. The effects of proposed legislation on tax revenues are estimates at best and difficult to predict. The complexities inherent in a classification system compound the problems of forecasting property tax revenue for legislative analyses. Often inaccurate revenue projections and unnecessary tax legislation are the result.

### Classification Increases Litigation and Uncertainty

Desirable objectives in property tax administration should be simplicity and stability. Classification, however, increases the areas for litigation and uncertainty by adding a new element of potential controversy -- categorization of the property. Many arguments are certain to arise concerning classification of particular items of property and result in expensive administrative appeals and litigation. These will mount as the number of classes increases, as was the case in Minnesota.

Numerous questions will arise, adding to the overall uncertainty: Should a parcel of farmland owned by a corporate taxpayer in a predominantly agricultural land-use area surrounded by some scattered industry be classified as industrial or agricultural property? Should classification of property at different levels be determined by ownership interest in the property or its actual use? When does residential property become commercial in cases of multi-unit apartments? How is the class of multiple-use properties to be determined? Is the class of vacant land governed by its present, prior or possible future use? Only the scope of one's imagination limits the number of such potential issues. Assessors whose primary functions and responsibilities should be ascertaining proper market values of property will find themselves constantly involved in classification discussions since these levels so directly affect the tax liability of the taxpayer. The classification system opens an entirely new arena of litigational possibilities which could otherwise be avoided at savings to the government and the public.

### CONCLUSION

The above discussion and the appendix which follows demonstrate that a classified property tax should not be among the property tax "reforms" that the States should consider. A uniform property tax is properly part of a balanced tax system. Classification is contrary to the basic principles of uniformity and equity. The uniform property tax also plays an important role in maintaining sound local government. Classification can be costly in the loss of jobs by adversely affecting economic growth and eroding the tax base. It also can be very costly from an administrative viewpoint and result in increased litigation

Appendix A

DISCRIMINATION FROM CLASSIFICATION

Classification Compounds Underassessment Discrimination

One of the least understood administrative problems in classification is the further discrimination against taxpayers in higher assessment categories caused by a tendency to value property below actual market levels. Many assessors follow an unwritten rule of appraising property at less than fair market value in order to minimize appeals and litigation on statutory assessment level questions. This questionable practice has the effect of increasing the disparities between classes of property when uniform tax rates are applied to assessed values.

When a uniform property tax system shifts to a classified system, it is obvious that those in the higher-taxed classes lose, in relation to the pre-existing uniformity, and that those in the lower classes gain correspondingly. This may be correctly described as a legal discrimination. But, whether one approves or disapproves, discrimination to this extent is the purpose of classification. However, it is probable that a classified property tax will lead to double discrimination against some classes of property because of predictable administrative illegalities.

It is common knowledge that even in States which legally require uniformity of assessments, there exists a widespread practice of discrimination in fact. Most often, this is reflected in illegally high assessments against utility, industrial, and commercial properties, and illegally low assessments of residential and agricultural property and unused land. Thus, it is commonly said that "de facto" classification exists even where legally prohibited. This is sometimes used by those who favor a legally sanctioned classified system as an argument for making legal that which exists in fact.

There are sound reasons why this should not be done. First, the aggrieved property owner at least has the right to protest the de facto classification and, indeed, frequently does so. Although it is notoriously difficult to win such appeals even in clearly meritorious cases, relief is granted often enough that the remedy cannot be lightly dismissed.

Second, -and particularly pertinent here - there is the real danger that the assessing officer will continue his "in fact" discriminatory practices within the structure of the classified system much as was done when across-the-board uniformity was required. It is here that the danger of "double discrimination" exists. If, for example, a classified system calls for the assessment of utility property at 50% of full value and agricultural property at 20%, it should surprise no one to find, after a time, that utility property is, in fact, being assessed at the full 50% while agricultural property is at 15%. Conceivably, but improbably, it could go the other way as well. Regardless of the direction--and the chances are great that agricultural and residential property would continue to be favored--it is clear that legalizing the original

de facto practice does not, in such case, eliminate the illegality. Rather, it continues the de facto discriminatory practice, but on a classified base which is doubly injurious to the prejudiced property.\*

While the foregoing discussion has been in terms of business and non-business property, the discrimination which results from illegal fractional assessments, regardless of whether legal classification exists, may have an invidious effect upon any class of property--so long as there is de facto discrimination which favors at least one class of property assessed below the required legal level. This is true because in most taxing jurisdictions the property tax rate is a function of the levying unit's budget divided by the assessed value of the taxable property in the unit. Thus, it is a mathematical certainty that an illegally reduced assessment level for any one class of property (be it residential, agricultural, or industrial) will further increase the tax rate on all classes not so favored. Obviously, this produces a shift in the tax burden beyond that intended by a legal classification system. This is illustrated in the attached Examples. In this instance, the appraisal of residential property at 90% rather than 100% of full value gives residential property owners an illegal tax break of \$2,050, which is picked up by the remaining property - agricultural, commercial/industrial, and utility - through the automatic arithmetical increase in the tax rate which is required to produce the total \$130,000 budget.

Out of all the above emerges one clear fact--a fixed classification system will not cure the administrative evil of deliberate underassessments whatever the statutory assessment percentage, because appraisals at lower than market value can administratively extend the disparities among classes.

#### Equalization Procedures Further Compound Classification Discrimination

Most states have some form of tax equalization program aimed at establishing taxable property values on a uniform basis. In some states the "state equalized value" is the property tax base for all purposes; in others, it is a factor in the school aid distribution formula, in the distribution of welfare assistance, or in other programs where community wealth plays a part. Particularly in those states where the "equalized" value serves as the base for the property tax levy, the equalization process often compounds individual tax inequities even while accomplishing a standardization of taxable values among the state's governmental subdivisions. This occurs where assessments of a local taxing unit are equalized upward, and the incremental taxable value is apportioned to all assessments by the application of a single multiplier on the patently erroneous theory that all assessments in the unit were initially entered on the local assessment roll at a uniform level of underassessment. What happens in fact is that initially excessive

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\*The reason why it is sound to predict that business property would continue as the target of de facto discrimination, superimposed on the legally discriminatory classification system, is that people-owned property (principally residential and agricultural) is taxed to voters, whereas the bulk of business property is not.

assessments are shoved higher still, while the taxpayer favored by the local assessment gets a further break by picking up less than his share of the equalization increment. From this, it is readily seen that if an entire class of property (e.g., utility property) were assessed locally at a level proportionately higher than that applied to other classes of property, the equalization process compounds the inequity and thereby further favors the remaining classes. This would be true whether the taxing unit is legally required to assess uniformly or according to a classified system. But if the overassessed property also happens to be of a class subjected to higher classified rates, the underassessed property clearly gets a double break. Part of the tax it would bear under a uniform system was shifted to the less-favored class by dint of classification, and a second part is shifted as the result of "equalization."

EXAMPLES

Assume the following market values and assessment levels in a hypothetical classification system:

<u>Type of Property</u>	<u>Market Value</u>	<u>Assessment %</u>	<u>Assessed Valuation</u>
Agricultural	\$1,000,000	20%	\$ 200,000
Residential	1,000,000	25%	250,000
Commercial & Industrial	1,000,000	35%	350,000
Utility	<u>1,000,000</u>	50%	<u>500,000</u>
Totals	<u>\$4,000,000</u>		<u>\$1,300,000</u>

Further, assume that the anticipated expenditure level for all operations in the governmental jurisdiction equals \$130,000. The resulting tax rate required to fund the expenditures would be \$100 per \$1,000 of assessed valuation. The tax liability incurred by each class of taxpayer should be as follows:

<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$1,000</u>	<u>Tax</u>	<u>Tax Share</u>
Agricultural	\$ 200,000	\$100	\$ 20,000	15.4%
Residential	250,000	100	25,000	19.2%
Commercial & Industrial	350,000	100	35,000	26.9%
Utility	<u>500,000</u>	100	<u>50,000</u>	<u>38.5%</u>
Totals	<u>\$1,300,000</u>		<u>\$130,000</u>	<u>100.0%</u>

If in order to minimize taxpayer complaints, all residential properties are appraised at a 90% fraction of market value, the taxable values and distribution of the total tax bill would be as follows:

<u>Type of Property</u>	<u>Appraised Value</u>	<u>Assessment %</u>	<u>Assessed Valuation</u>	<u>Tax Rate \$1,000 (Rounded)</u>	<u>Tax</u>	<u>Tax Share</u>
Agricultural	\$1,000,000	20%	\$ 200,000	\$102	\$ 20,400	15.7%
Residential	900,000	25%	225,000	102	22,950	17.7%
Commercial & Industrial	1,000,000	35%	350,000	102	35,700	27.4%
Utility	<u>1,000,000</u>	50%	<u>500,000</u>	102	<u>51,000</u>	<u>39.2%</u>
Totals	<u>\$3,900,000</u>		<u>\$1,275,000</u>		<u>\$130,000</u>	<u>100.0%</u>

Statement of New Jersey Manufacturers Association

before the

Senate Committee on State Government & Federal  
& Interstate Relations

Concerning Classified Property Tax Proposals  
(SCR-127, SCR-130 and SCR-133)

July 25, 1974

Mr. Chairman and Members of the Committee:

I am Robert Woodford, Assistant Vice President of New Jersey Manufacturers Association.

Our Association, comprised of over 13,000 New Jersey businesses, welcomes this opportunity to comment on Senate Concurrent Resolutions 127, 130 and 133. We oppose and have opposed publicly, for many years, the imposition of any form of classified property tax in New Jersey. We have opposed classification because it is the antithesis of the many positive steps taken in New Jersey over the past decade to bring about an impartial and evenhanded treatment of all who are subject to the property tax.

Any system which places in the hands of the Legislature the power to discriminate at will, to distinguish classes of property holders, to favor some and disadvantage others, to invite an annual contest for political favor by those seeking to be advantaged, serves only to destroy equality and uniformity of treatment.

Abandoning the principle of uniform treatment makes property taxation a game of political influence devoid of any particular guiding principle. As aptly stated in a 1973 report of the National Tax Association-Tax Institute of America entitled The Erosion of the Ad Valorem Real Estate Tax Base: "Once the uniformity rule is abandoned with respect to land use, the tax policy maker is at sea without a compass to guide him....as the political power of property users shifts, pressures are exerted to make changes in differential treatment in favor of the

stronger groups and at the disadvantage of weaker groups. Each legislative session witnesses a host of special groups seeking preferential tax treatment." As the report concluded, "The classified property tax is not solidly grounded in the theory and practice of economics or ethics....Equally strong cases can be made for taxing either business or residential property more heavily."

We will assume, for purposes of our comments on Senate Concurrent Resolutions 127, 130 and 133, that maximum permissible rates will be applied to commercial and industrial properties.

### Illusory Benefits

It is an obvious and fundamental fact of economics that, to survive, a business must recover its full cost of operation in the sales price of the goods and services it sells. Some have even voiced the opinion that there is really no such thing as a business tax since people, as consumers, bear the real cost of all taxes imposed on businesses. As our present high rate of business bankruptcies demonstrates, there are limited exceptions to the rule -- marginal and unprofitable businesses living by means of the dissolution of their assets. Clearly, the business that hopes to survive must pass on its total costs to customers -- taxes included.

Because of this fundamental fact of business survival, a classified property tax would do little or nothing to reduce the burden on New Jersey taxpayers. If it is assumed that businesses subject to the discriminatory property tax proposed are able to pass on their added tax cost to consumers, relief of the residential property taxpayer will be largely offset by the higher cost of goods and services. The homeowner will pay not only a higher cost for goods and services but also the higher sales tax on many of these goods and services. Additionally, homeowners enjoy the benefit of a Federal tax deduction of their property tax payments which

has the effect of reducing their Federal personal income tax liability. The same homeowner will receive no such deduction for the increased cost of goods and services. Conversion of a property tax cost into an increased cost of goods and services will increase the Federal income tax liability of the average homeowner.

The reduction in property tax afforded most homeowners, therefore, would be largely illusory because of increased costs and taxes directly resulting from the very system of property classification intended to serve such homeowners.

#### Economic Repercussions

More important than the illusory nature of benefits promised to the homeowner is the probable damage to New Jersey's economy and tax base. Not all businesses are in a position to pass on increased tax costs to their customers. Manufacturers are a case in point. They serve a national and international market. They must price their products to compete with those manufacturing in other jurisdictions. A manufacturer that cannot compete effectively in part or all of its market must either lose sales (and thereby reduce employment) or relocate its operation. If it cannot compete effectively or afford to relocate, it must finance the continued production and sale of its products through liquidation of capital. Many marginal firms in New Jersey are doing precisely that. The growing number of business bankruptcies in New Jersey attests to the fact that such firms live on borrowed time. Employees and their families, together with investors, are the losers.

Any of the proposed classified property tax systems would threaten the continued operation of many of New Jersey's marginal firms.

Of even greater consequence than the impact on marginal firms is the serious obstacle which classification poses to future investment in New Jersey. This Legislature's discussion of classification has not gone unnoticed by major national corporations. A recurring theme in the comments received by NJMA has

been that few, if any, major manufacturing concerns would give any consideration to New Jersey as a place to locate if a classified property tax becomes law. No legislative act could better demonstrate an unfavorable and discriminatory governmental attitude towards business.

Our organization recognizes, from our sixty years of experience in serving New Jersey's business community, that any negative factor which greatly distinguishes a state from its neighbors and competitors will severely hamper that state's ability to attract new investment and provide job opportunities for its citizens. No neighboring state, no surrounding state, and no major industrial state presently has a statewide system of property classification. Being the first major industrial state to authorize statewide property classification would rule out New Jersey as a location for new industry.

#### The Impact on Industry

There are, as we have indicated, segments of the business community that could readily pass increased property tax costs to the consumer. These, nevertheless, stand to lose, as will their employees, if the level of State economic activity declines. The advent of classification could generate such a decline through its severe impact on manufacturing.

Manufacturing comprises the largest private sector of New Jersey's economy. A very large percentage of New Jersey's labor force are employed by manufacturing concerns. Proportionately, an even larger percentage of New Jersey personal income is earned in manufacturing. It is not only the single most important source of jobs and income in New Jersey but also generates activity and jobs in other sectors, such as construction and services.

New Jersey is not, today, competitive in attracting its share of investment in manufacturing. The evidence in support of that conclusion is overwhelming.

New Jersey employs approximately 69,000 fewer persons in manufacturing today than in 1969.

New Jersey failed to experience a significant resurgence of manufacturing employment as nationwide manufacturing employment bounced back from the 1970 recession.

New Jersey has over 260,000 persons unemployed -- 7.7% of our labor force, as compared with 5.2% unemployed nationwide.

New business construction in New Jersey has consisted primarily of office and warehouse space, not manufacturing facilities, in recent years.

The rate of industrial plant closings in New Jersey is exceptionally high.

What any reasonable man could draw from these statistics has been even more graphically demonstrated by completion, during the last 15 months, of three multi-state studies of the comparative tax burden on manufacturing corporations. I am referring to the April 1973 Arthur Andersen & Co. study entitled "Interstate Comparative State and Local Tax Study", prepared for the New York State Association of Industrial Development Agencies; the 1974 New Jersey Taxpayers Association study entitled "The New Jersey Tax Climate"; and the June 1974 Ernst & Ernst study entitled "The Burden on Manufacturing of State and Local Taxes and Governmentally Imposed Costs" prepared for New Jersey Manufacturers Association.

Together, the three studies used a total of ten different model manufacturing corporations of varying size. For all ten model corporations, New Jersey's state and local tax burden exceeded that of New York and Pennsylvania.

The addition of workmen's compensation costs (Ernst & Ernst study for NJMA) further widened the gap in costs. Our third neighbor, Delaware, (included in the NJMA study only) was shown to impose a burden less than half of that shouldered by New Jersey manufacturers.

It should be noted that neither the New York nor NJMA studies reflected the recent doubling of the New York tax credit for new plant and equipment. The decrease in Pennsylvania's corporation tax rate also followed publication of the New York study.

We noted with interest the treatment of these recent studies in the REPORT of the Joint Educational Funding Committee to the New Jersey Legislature dated July 16, 1974. While the report (p. 45) does state that a 1972 Pennsylvania Economy League Study "indicates that New Jersey may have reached its business tax limit," it attempts to downgrade the two 1974 New Jersey studies, totally ignores the 1973 New York study and seems to lean heavily on the recent Rhode Island Expenditure Council Study which was limited to comparison of a small selection of large, older urban areas, including only one New Jersey municipality.

How sad it is that the rhetorical web the Joint Committee chose to weave around the many recent tax studies could not also reemploy the 69,000 people who five years ago earned a living in industry in this State.

Adoption of a classified property tax in New Jersey would seriously impair the effort to stimulate growth in New Jersey's economy and growth in New Jersey's State and local tax base. The creation of yet another major disadvantage to burden the competitive ability of New Jersey's businesses will, in a variety of ways, harm the interests of the men and women of our labor force. Jobs are already scarce and could become more scarce. Opportunities for advancement that arise in expanding businesses are not present in businesses contracting their operations.

Too many of New Jersey's citizens who believed they had secure economic futures have been forced to seek new jobs as their employers discontinued unprofitable New Jersey operations. Too many have already found themselves on unemployment and welfare rolls.

We urge this Legislature to respond to the "thorough and efficient" mandate of the Constitution in a manner consistent with the State's economic needs. As we stated at an earlier hearing: "This Legislature has the means to pursue a strengthening of the State's economy. The question remaining is whether the Legislature has the will to pursue that objective." In accord with that economic objective, we urge your rejection of a classified property tax in all its forms and substitution of a more modest tax program to support (and limited to) a more affordable State school support effort.

Thank you for the opportunity to be heard.



# LEAGUE OF WOMEN VOTERS OF NEW JERSEY

460 BLOOMFIELD AVENUE, MONTCLAIR, NEW JERSEY 07042 TELEPHONE 746-1465 AREA CODE 201

## TESTIMONY ON PROPOSED CONSTITUTIONAL AMENDMENTS

SCR 126, 127, 130, 131, 132, 133

SENATE STATE GOVERNMENT AND FEDERAL  
AND INTERSTATE RELATIONS COMMITTEE

July 16, 1974

I am Mary Nash, Fiscal Policy Chairman for the League of Women Voters of New Jersey representing over 9000 members throughout the state. Thank you for this opportunity to express our views on these constitutional amendments.

### Classification - SCR 127, 130, 133

The League of Women Voters of New Jersey opposes the use of a statewide property tax, whether at the same or differential rates, as the sole means of meeting the court requirement to reduce the present dependence on the local property tax for school finance.

The property tax no longer represents a reasonable measure of wealth. Just as ownership of property does not adequately reflect the wealth of an individual, it also does not reflect the wealth of a business. The amount of property tax depends on the amount of land and facilities required to carry on various types of businesses. These requirements vary widely and bear no relationship to the actual income producing value of the business.

There is no generally accepted economic rationale for classifying property, therefore there is no sound theoretical basis for singling out certain classes of property. Without such a reference, there is no rational basis for determining types of classes or different tax rates. This is evident in the various classification proposals which have been introduced in this Legislature. They have varied rates and classes, mainly set on the basis of the amount of revenue desired, rather than on any justifiable taxing basis. SCR 133 allows up to 8 classes without attempting to define them. SCR 127 sets two general classes but also allows the Legislature to enact "general classifications for assessment or rate purposes". This appears to allow an unlimited number of subclasses. Such open ended proposals are an invitation to extreme political pressure on the Legislature for special treatment, so that politics rather than economics would determine property tax laws for various businesses.

(More)

Of particular concern in New Jersey is the effect of classification on the location and expansion of business, and redevelopment of business in urban areas. Neither the economic climate nor the unemployment rate have been favorable for some time. The recent report which indicated business taxes are higher in New Jersey than neighboring states, and second only to Ohio, is a clear indication we cannot indiscriminately add to the business tax burden.

The League is particularly concerned with the effect of a classified property tax on urban areas. It appears such an approach would do little or nothing to improve the business climate. For example, in Newark a classified property tax of \$1.50 and \$2.50 would reduce the business property tax rate only 22¢, from \$6.56 to \$6.32. This would offer little or no encouragement for revitalization, and would tend to continue the flight to lower tax suburban and rural areas. In contrast, the proposed \$3.25 business tax with 75% credit for local taxes would reduce the rate to \$4.21. Since business in other areas would be subject to at least a \$3.25 tax, it is clear Newark would be in a much better position to compete for new business development.

The process of classification is also more cumbersome and time consuming leading the League to believe it would increase the cost of administration, as well as increasing the possibility of more inequities in assessment.

At this point, the League has heard no arguments nor seen any plan which justifies the adoption of classification.

#### Senior Citizen Tax Relief - SCR 126, 132

The League opposes both SCR 126 which provides a \$10,000 homestead exemption, and SCR 132 which would increase the present senior citizen exemption from \$160 to \$500 while raising the income limitation to \$7,500. The League has testified for the past two years before legislative taxation committees on this subject. Both times we have recommended a "circuit breaker" approach which limits property tax on the basis of income. We opposed many other types of proposals because they failed to meet the following League criteria for judging such proposals.

1. Tax relief should be determined by income as well as age.
2. Replacement of lost revenue must be the responsibility of the state rather than being shifted to other property owners.
3. Benefits must be statewide, not by local option, to insure all citizens in similar circumstances are treated equally.
4. Benefits should be extended to renters as well as homeowners.

(More)

5. Income eligibility limitations should be total income, including social security or other pensions.
6. The amount of tax relief granted should bear some relationship to the tax burden of non-senior citizen taxpayers.

SCR 126

A homestead exemption is not adequate to solve the problem, and fails to meet several of these criteria. First, it sets no income limitations. The League sees no justification for providing relief for affluent senior citizens. Second, it fails to provide relief for renters, who comprise almost 50% of New Jersey families. Third, a \$10,000 exemption provides varied amounts of dollar relief dependent on assessment and tax rates which vary greatly from municipality to municipality. For example:

<u>Assessed Value</u>	<u>Effective Tax Rate</u>	<u>Tax Relief</u>	<u>Total Tax (after exemption)</u>
\$20,000	\$7.00	\$700	\$700
\$40,000	\$4.00	\$400	\$1200

It is clear the homestead exemption approach does not guarantee equitable relief. No matter what figure is chosen for the exemption, it does not guarantee adequate relief for all senior citizens.

SCR 132

The increase in exemption from \$160 to \$500 which SCR 132 provides also has major drawbacks. Renters would not be covered. Since the present 50/50 funding responsibility continues, local municipalities would be faced with a staggering increase in the cost of senior citizen relief which would have to be shifted to other property owners. Using the 1974-75 budget appropriation of \$14.5 million as a guide, we have calculated that municipalities would have to shift over \$30 million just to fund those senior citizens who are presently eligible. This number would be substantially increased by the inclusion of senior citizens with incomes up to \$7,500 and the disabled. Every newly eligible family would cost the local municipality \$250. Shifting such a large amount of cost to other property taxpayers, would greatly increase their burden.

The increase in income limitation level to \$7,500 exclusive of Social Security and other pensions would be extremely inequitable to younger low and moderate income families. Senior citizen couples with an income of \$12,000 or more would be subsidized by hundreds of thousands of families who have less income yet are still raising families. As of the 1970 census 21.8% of the families in New Jersey have incomes less than \$7,000. 40.4% had incomes less than \$10,000.

(More)

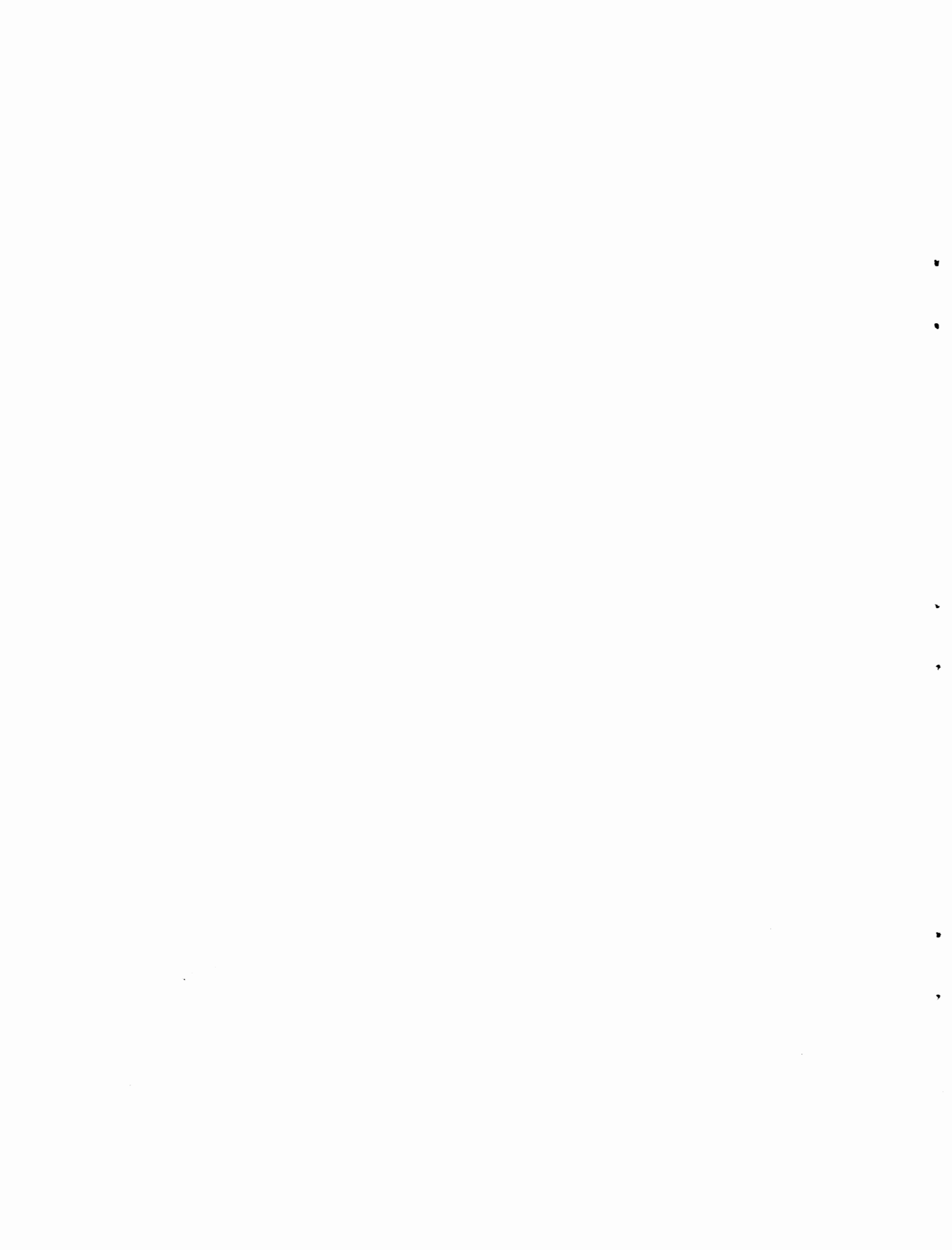
We also question what seems to be discrimination between those who receive Social Security and those who receive other pensions. Section b., lines 31-35, page 2, appears to limit those with pensions other than Social Security to a \$160 deduction and \$5,000 income. If this is not the intent, we cannot determine the purpose of this new section, and would appreciate clarification.

Dedication of Taxes - SCR 131

The League of Women Voters opposes dedication of taxes since it hampers sound fiscal management. We see particular problems with SCR 131. As we read the bill, all proceeds must go to education. The wording of the bill, that the sum to be expended from any statewide tax may not exceed 40% of State funds, seems to indicate that this means only those funds which make up state aid. However, we are really not sure if this is the intent of the bill, or whether the intent is 40% of all funds expended, whether raised by state or local taxation. We believe the wording should be changed so the intent is clear.

If the intent is 40% of state aid funding, it raises a real problem. What if the yield from a statewide tax exceeds 40%? Since it is dedicated it cannot be used for other purposes. It appears it would have to be placed in a fund. The highway trust fund which grows and grows and cannot be put to use, comes to mind as an example of what could happen in New Jersey with a dedicated school fund including the limitations imposed by this bill. Our own New Jersey history during the 1930's is another example of dedicated taxes failing to meet changing conditions so that basic needs went unmet while funds were piling up for programs for which there was no need.

Since the yield of a given tax will seldom match the purpose for which it is dedicated, and since both needs and tax yields change, the League believes it is unwise to dedicate specific taxes to specific programs and urges you to reject this Constitutional amendment.



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