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# The Revenue Gap and Tax Burden

# REPORT

# 1



## NEW JERSEY TAX POLICY COMMITTEE

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*The Report Consists of the Following Volumes*

**SUMMARY**

**Part I THE REVENUE GAP AND DISTRIBUTION  
OF THE TAX BURDEN**

**Part II THE PROPERTY TAX**

**Part III SERVICE LEVELS AND STATE AID**

**Part IV TRENDS IN CAPITAL NEEDS AND  
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*Part I*  
of the Report of the  
**NEW JERSEY TAX POLICY COMMITTEE**

**The Revenue Gap and Distribution of the Tax Burden**

Submitted to Governor William T. Cahill  
pursuant to Executive Order No. 5 of 1970

The report consists of  
five separate parts and  
a summary volume

TRENTON, NEW JERSEY  
February 23, 1972

# NEW JERSEY TAX POLICY COMMITTEE

(appointed by the Governor pursuant to Executive Order No. 5 of 1970)

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VERDELL ROUNDTREE ..... *Vice Chairman*  
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## NEW JERSEY TAX POLICY COMMITTEE

### *Report: Part I*

# The Revenue Gap and Distribution of the Tax Burden

## Synopsis of Part I

The state revenue gap in 1975 is projected at from \$173.3 million to \$450.9 million, depending upon the extent to which the existing program of state aid for schools is funded. Likewise, the 1980 revenue gap is projected to range between \$670.4 million and \$970.4 million. The local revenue gap, assuming that average property tax rates were held constant over the next decade at 1971 levels, has been projected at \$143.1 million in 1975 and \$342.3 million in 1980. Thus, with the assumption of a 3% inflation rate, the aggregate state-local revenue gap is \$316.4 million in 1975 and \$1,012.7 million in 1980. If a 4% annual rate of inflation is assumed, the combined state-local revenue gap could be \$1,841 million in 1980. Full or partial funding of the Bateman Act formula for state aid for schools does not affect the projected *combined* gap, since the state and local gaps would theoretically increase and decrease, respectively, by the same amount.

The causes of these gaps are explored in this report, as are alternate approaches to eliminating the gaps. The principal cause of the gaps is shown to be the "inelasticity" of revenues as compared with the "elasticity" of expenditures. Among the possible remedies are an increase in overall state-local taxation and a restructuring of the present tax system.

As compared with other states, total state-local taxation in New Jersey is about average in relation to total taxpaying capacity. The distribution of the total tax burden by income classes in New Jersey, however, is relatively regressive, and this is mostly brought about by New Jersey's heavy reliance upon the property tax.

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#### ***Consultants and Staff for this Part:***

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## Introduction

This is a report which deals with money—tax revenues and expenditures of state and local governments—but it is focused on people, their needs for services of government, the levels of government that deliver the services, and how the people pay for these services. As Governor William T. Cahill charged the Committee:

“To conduct a thorough study and investigation of the following:

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

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

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

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

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

The Report deals with the future, but much can be learned from the past. State revenue structures were not planned from the ground up, nor were state-local relationships evolved as part of a grand design. They have evolved over the years in a piecemeal response to needs of the day and in the context of the Federal system of government.

Certain perceptions and assumptions have guided the Committee's predictions of future spending and receipts. First, it is recognized that trends in revenues and expenditures of state and local government are dependent upon federal policies, particularly, the monetary and fiscal policies carried out by the federal government. Second, it is assumed that, within the State, the events of the past 15 years are a good, if not the best, guide to predicting trends in the next 5-10 years.

Third, there is the matter of inflation, which also has a major impact on the fiscal health of state and local governments. The National Planning Association, a non-profit organization with expertise in the use of econometric and demographic projection techniques, has estimated a national annual inflation rate of 2.9% to the mid-1970's and 2.4% thereafter. The consultants' projections for New Jersey assume a 3% rate of inflation for the entire decade. Data are also presented for a

4% inflation rate, both to demonstrate the sensitivity of state-local revenues and expenditures to rising prices, and to permit planning under more pessimistic conditions.

With these critical assumptions in place, future expenditures and revenues were extrapolated, category by category, from their past behavior.<sup>1</sup> For purposes of cross-checking these estimates, the Committee interviewed each of the major department heads with particular reference to the foreseeable expansion of state programs or changes in emphasis which might be predicted from the insight of an operating executive. These interviews confirmed the thrust of the expenditure projections as minimal estimates of revenue needs; a number of departments foresee larger requirements than the extrapolation approach suggests; virtually none anticipates a reduction in past expenditure growth trends.

More generally, the rationale of the Committee's approach to revenue needs can be described as follows.

*First*, it has not been the Committee's business to become involved in detailed analysis and recommendation of state and local government expenditure programs; this would have taken it too far afield from its assigned and basic revenue problem.

*Second*, however, since revenue requirements are posed by expenditure needs, the Committee obviously has had to make some overall estimate of the latter. And for these overall expenditure estimates to be realistic they must incorporate the pattern of growth in state and local government programs that very clearly is demanded by the New Jersey public and that is not about to come to an abrupt halt. For this purpose, as indicated, the projections contain a built-in rate of growth in future service programs comparable to the rate of growth of the past 5 years—during which there were substantial increases and changes in state and local services.

*Third*, it is the Committee's purpose to recommend a revenue structure or system that, beside being more equitable and efficient than that we now have, and beside being responsive to the State's present areas of particular need, will leave future legislatures with some reserve capacity for responding to future needs in an equitable and efficient fashion.

<sup>1</sup>For extrapolation purposes, regressions were fitted to the data by the so-called least squares method.

## Chapter I

# State and Local Revenue Gap

*State Revenue Gap.* The most important result of the projections is the estimate of a future "revenue gap." State revenues in 1975, assuming a 3% annual inflation rate, are projected at \$2,259.0 million (Table 1). Departmental expenditures at this same point in time are estimated at \$955.3 million (Table 2). State aid expenditures are projected at \$1,332.0 million with the present funding of state aid for schools and \$1,609.6 million with full funding of the state aid formula (Table 3).

*The Committee concludes:*

**Including the current and future debt service, the projected fiscal gap in 1975 is \$173.3 million with present (1971) funding of state aid and \$450.9 million assuming full funding of the present state aid formula (Table 4). The 1980 revenue gap derived in the same manner is projected at \$670.4 million and \$970.4 million, respectively.**

TABLE 1  
State of New Jersey  
STATE REVENUES  
ADJUSTED<sup>a</sup> ACTUAL FISCAL 1960 AND 1970 AND PROJECTED 1975 AND 1980  
INFLATION RATES 3 AND 4 PERCENT PER ANNUM  
(Millions of Dollars)<sup>a</sup>

Source	Adjusted <sup>a</sup>		Projected			
	Actual		3% Inflation		4% Inflation	
	1960	1970	1975	1980	1975	1980
Sales and Use Tax .....	348.0 <sup>b</sup>	485.5 <sup>c</sup>	776.3	1,138.5	810.7	1,213.5
Motor Vehicle .....	84.8	128.8	162.9	202.9	163.3	204.0
Motor Fuels Tax .....	137.9	200.4	243.6	297.5	243.6	297.5
Transfer Inheritance .....	33.4	65.6	95.5	135.3	95.5	135.3
Alcoholic Beverage .....	32.2	43.6	54.1	64.4	54.1	64.4
Corporation Net Worth .....	32.7	73.4	98.0	156.4	110.1	205.8
Corporation Net Income .....	65.4	108.5	149.5	198.2	149.5	198.2
Foreign Insurance Corp. ....	16.0	34.0	49.0	67.9	48.4	66.3
Public Utility Surtax .....	12.8 <sup>d</sup>	18.8	25.8	35.7	26.1	36.5
Parimutuel .....	25.1	35.2	45.6	58.5	48.7	68.6
Cigarette Tax .....	115.0	118.5	125.0	125.0	125.0	125.0
Emergency Transportation Tax	6.7 <sup>e</sup>	17.6	34.4	69.4	34.4	69.4
Miscellaneous Tax and Fees ...	11.5	25.4 <sup>f</sup>	33.6	46.8	41.4	62.4
Department Sales and Services	30.2	83.6 <sup>f</sup>	122.7	186.3	143.3	222.6
Other Sources .....	33.3	81.6 <sup>f</sup>	129.6	197.6	159.2	254.5
Budgeted Federal Aid .....	2.3	19.9	48.4	153.0	48.4	153.0
Lottery .....	—	—	65.0	65.0	65.0	65.0
<b>TOTAL .....</b>	<sup>g</sup>	1,540.4	2,259.0	3,198.4	2,366.7	3,442.0

<sup>a</sup> Revenues for 1960 and 1970 are adjusted to reflect current rates or collection procedures.

<sup>b</sup> Estimated tax that would have been collected in 1967 at the current rate.

<sup>c</sup> Portion of year adjusted to current rate.

<sup>d</sup> 1964 adjusted actual.

<sup>e</sup> 1963 adjusted actual.

<sup>f</sup> 1969 adjusted actual.

<sup>g</sup> Total not valid. Column date used for statistical purposes only.

Source: Actual data and adjustment information provided by State of New Jersey, Department of the Treasury, Division of Taxation and Division of Budget and Accounting.

**TABLE 2**  
**State of New Jersey**  
**STATE EXPENDITURES**  
**ACTUAL FISCAL 1960 AND 1970 AND PROJECTED 1975 AND 1980**  
**INFLATION RATES 3 AND 4 PERCENT PER ANNUM**  
(Millions of Dollars)

Department	Actual		Projected			
	1960	1970	3% Inflation		4% Inflation	
			1975	1980	1975	1980
Legislative .....	1.7	5.6	7.8	11.2	8.4	12.9
Executive .....	0.2	0.6	0.9	1.1	0.9	1.3
Law and Public Safety .....	19.0	50.0	77.8	138.4	86.0	181.2
Treasury .....	8.9	24.6	40.7	74.3	45.2	98.8
State .....	0.4	1.3	1.8	3.0	1.8	3.2
Civil Service .....	1.2	3.3	5.1	8.9	5.5	10.6
Banking and Insurance .....	1.8	4.0	4.4	5.4	4.6	5.8
Agriculture .....	1.4	3.0	4.3	6.7	4.7	8.7
Defense .....	2.0	3.6	4.5	6.0	4.5	6.0
Public Utilities .....	0.7	4.0	4.8	11.8	6.3	24.2
Health .....	2.9	7.7	12.8	20.0	12.8	20.0
Labor and Industry .....	5.6	22.7	33.5	49.4	35.7	55.2
Conservation and Economic Development .....	7.6	17.6	24.5	36.9	24.5	36.9
Transportation .....	22.2	50.4	67.3	97.3	67.4	97.6
Institutions and Agencies .....	62.1	164.7	217.4	305.6	230.8	341.4
Misc. Executive Comm. ....	0.8	2.0	2.6	3.8	2.5	3.3
Inter- and Non-Departmental .....	15.5	113.0	178.4	304.3	178.4	304.3
Judiciary .....	2.2	8.2	11.4	15.6	12.7	19.1
Community Affairs <sup>1</sup> .....		3.9				
Education and Higher Education .....	26.9	165.9	255.3	611.8	275.4	749.3
<b>GENERAL TOTAL .....</b>	<b>183.1</b>	<b>656.1</b>	<b>955.3</b>	<b>1,712.0</b>	<b>1,008.1</b>	<b>1,979.8</b>

Source: Actual and adjustment information provided by State of New Jersey, Department of Treasury, Division of Taxation and Division of Budget and Accounting.

<sup>1</sup> Since the Department of Community Affairs and Department of Environmental Protection did not exist during most of the base period from which regressions were derived, the functions of these departments are projected through their predecessor departments.

**TABLE 3**  
**State of New Jersey**  
**NEW JERSEY STATE AID PROJECTIONS, 1975 AND 1980, INFLATION AT 3%**  
(Millions of Dollars)

Department	Assuming Present* Funding of Bateman Formula		Assuming Full Funding** of Bateman Formula	
	1975	1980	1975	1980
Treasury .....	109.0	147.3	109.0	147.3
Health .....	8.0	8.0	8.0	8.0
Judiciary .....	1.0	1.0	1.0	1.0
Conservation & Development .....	3.7	4.3	3.7	4.3
Higher Education .....	200.0	280.0	200.0	280.0
Transportation .....	30.0	30.0	30.0	30.0
Institutions & Agencies .....	357.9	471.2	357.9	471.2
Education .....	622.4	900.0	900.0	1,200.0
<b>TOTAL .....</b>	<b>1,332.0</b>	<b>1,841.8</b>	<b>1,609.6</b>	<b>2,141.8</b>

\* This is based upon the 1971-72 Fiscal Year distributions. Total state aid authorized that year was \$429.6 million. This included, among other items, a total \$244.6 million comprised of minimum aid, equalization aid, 20% of the difference between the old equalization formula and the Bateman formula, save harmless aid, additional aid to the "big six" cities, and an additional flat grant of \$25 per pupil to all districts.

\*\* 40% of the total of local school costs, including state contributions to the teachers' pension and annuity fund.

**TABLE 4**  
**State of New Jersey**  
**STATE FISCAL GAP PROJECTED 1975 AND 1980**  
**INFLATION RATES 3 AND 4 PERCENT PER ANNUM**  
(Millions of Dollars)

	Assuming Present Funding of Bateman Formula				Assuming Full Funding of Bateman Formula			
	3% Inflation		4% Inflation		3% Inflation		4% Inflation	
	1975	1980	1975	1980	1975	1980	1975	1980
<b>REVENUES</b> .....	2,259.0	3,198.4	2,366.7	3,442.0	2,259.0	3,198.4	2,366.7	3,442.0
<b>Less:</b>								
General Expenditures .....	955.3	1,712.0	1,008.1	1,979.8	955.3	1,712.0	1,008.1	1,979.8
State Aid .....	1,332.0	1,841.8	1,415.7	2,168.9	1,609.6	2,141.8	1,693.3	2,468.9
Debt Service .....	120.0	116.0	120.0	116.0	120.0	116.0	120.0	116.0
Operation & Maintenance (With New Debt) .....	25.0	199.0	26.3	230.0	25.0	199.0	26.3	230.0
<b>FISCAL GAP</b> .....	173.3	670.4	203.4	1,052.7	450.9	970.4	481.0	1,352.7
Percent of Revenues .....	7.5	21.1	8.6	30.6	20.4	30.4	16.1	39.3

Source: Revenues from Table 1; General Expenditures from Table 2; State Aid, Table 3, provided by Departments listed; Debt Service and Operation and Maintenance estimates provided by State of New Jersey, Department of Treasury, Division of Budget and Accounting. Debt Service and Associated Operation and Maintenance assumes balance of \$990 million in bonds authorized, issued and spent on capital improvements.

NOTE: See note under Table 7, with respect to the effect of inflation on state aid.

**TABLE 5**  
**State of New Jersey**  
**PROJECTED PROPERTY TAX REQUIREMENTS**  
**ASSUMING TAX RATE PERMITTED TO RISE AND 3% INFLATION**  
(Millions of Dollars)

	Expenditures <sup>1</sup>				Nonproperty Tax Revenue <sup>2</sup>				Property Tax Need	
	Actual		Projected		Actual		Projected		1975	1980
	1960	1969	1975	1980	1960	1969	1975	1980	1975	1980
Cape May, Cumberland, Salem .....	32.2*	74.5*	110.3*	145.3*	10.7	33.4	32.1*	43.7*	78.2*	101.6*
Camden, Gloucester .....	64.4*	147.3*	224.4*	301.7*	17.8	34.3	48.2*	62.2*	176.2*	239.5*
Hunterdon, Sussex, Warren .....	26.1*	67.9*	113.4*	166.5*	8.0	17.3	25.8*	36.0*	87.6*	130.5*
Atlantic .....	30.8	59.2	85.5	110.6	11.3	20.9	31.8	44.5	53.7	66.1
Bergen .....	130.4	291.1	446.4	592.7	27.2	56.4	86.3	112.2	360.1	480.5
Burlington .....	24.2	63.4	102.2	137.7	9.3	17.3	26.3	37.2	75.9	100.5
Essex .....	190.3	377.4	553.1	717.2	44.6	83.5	115.6	147.1	437.5	570.1
Hudson .....	132.0	210.0	288.5	365.2	36.3	66.0	103.6	146.5	184.9	218.7
Mercer .....	44.2	92.8	142.4	193.4	9.8	24.1	37.2	51.5	105.2	141.9
Middlesex .....	78.1	173.6	271.3	362.6	21.2	35.8	46.2	54.2	225.1	308.4
Monmouth .....	51.2	141.3	234.7	335.5	14.9	28.4	43.7	62.6	191.0	272.9
Morris .....	44.8	122.7	194.9	263.3	10.5	23.6	35.9	47.3	159.0	216.0
Ocean .....	22.2	66.8	111.9	164.2	7.0	18.0	29.7	43.5	82.2	120.7
Passaic .....	60.8	122.7	193.7	254.2	14.1	25.2	32.7	41.0	161.0	213.2
Somerset .....	21.6	62.4	134.7	260.0	5.3	12.2	18.2	24.7	116.5	234.3
Union .....	90.5	180.0	265.7	346.7	22.2	36.7	47.9	58.2	217.5	288.5
<b>TOTAL</b> .....	1,041.8	2,253.1	3,472.8	4,716.8	270.2	523.1	761.2	1,013.4	2,711.6	3,703.4

<sup>1</sup> Includes all expenditures for municipal and county purposes, but includes only that portion of school expenditures which is over and above state and federal aid. This permits the projector to replace the net effect of such aids on the property tax need.

<sup>2</sup> Excludes state and federal aid for schools, which have already been deducted from the expenditures in the columns to the left.

\* Total for counties grouped.

**TABLE 6**  
**State of New Jersey**  
**PROJECTED ADDITIONAL LOCAL REVENUE REQUIREMENTS ASSUMING TAX RATES**  
**HELD CONSTANT AT 1971 LEVELS AND 3% INFLATION, 1975 AND 1980**  
(Millions of Dollars)

	Property Base				Computed 1971 Tax Rate (Per \$ Million)	Property Tax Revenue		Property Tax Need		Tax Rate Held Constant Additional Need 1971 Levels	
	Actual		Projected			1975	1980	1975	1980	1975	1980
	1960	1969	1975	1980							
Cape May, Cumberland, Salem .....	1,040*	1,591*	2,191*	2,676*	\$32,140	70.4*	86.0*	78.2*	101.6*	7.8*	15.6*
Camden, Gloucester .....	1,923*	2,973*	4,306*	5,723*	40,420	174.0*	231.3*	176.2*	239.5*	2.2*	8.2*
Hunterdon, Sussex, Warren .....	857*	1,668*	2,759*	4,302*	35,910	99.1*	144.8*	87.6*	130.5*	-11.5*	-14.3*
Atlantic .....	754	1,074	1,426	1,785	40,960	58.4	73.1	53.7	66.1	-4.7	-7.0
Bergen .....	4,550	8,369	13,464	19,584	30,340	408.5	594.2	360.1	480.5	-48.4	-113.7
Burlington .....	756	1,443	2,231	2,892	34,600	77.2	100.1	75.9	100.1	-1.3	0.4
Essex .....	3,856	5,502	6,796	7,823	53,420	363.0	417.9	437.5	570.1	74.5	152.2
Hudson .....	1,714	2,748	3,652	4,472	48,340	176.5	216.2	184.9	218.7	8.4	2.5
Mercer .....	1,162	1,737	2,296	2,743	39,980	91.8	109.7	105.2	141.9	13.4	32.2
Middlesex .....	2,212	3,977	5,794	7,213	30,350	175.8	218.9	225.1	308.4	49.3	89.5
Monmouth .....	5,129	3,042	4,752	6,302	39,740	188.8	250.4	191.0	272.9	2.2	22.5
Morris .....	1,562	3,280	5,383	7,320	32,380	174.3	237.0	159.0	216.0	-15.3	-21.0
Ocean .....	842	1,766	2,871	3,869	31,550	90.6	122.1	82.2	120.7	-8.4	-1.4
Passaic .....	1,757	3,112	4,543	5,991	34,670	157.5	207.7	161.0	213.2	3.5	5.5
Somerset .....	805	1,674	2,670	3,574	32,290	86.2	115.4	116.5	234.3	30.3	118.9
Union .....	2,938	4,616	6,017	7,106	32,350	194.6	229.9	217.5	288.5	22.9	58.6
<b>TOTAL .....</b>	<b>28,257</b>	<b>48,572</b>	<b>71,151</b>	<b>93,105</b>	<b>36,100</b>	<b>2,568.5**</b>	<b>3,361.1**</b>	<b>2,711.6</b>	<b>3,703.4</b>	<b>143.1**</b>	<b>342.3**</b>

\*\* Does not equal column total because of rounding of computed tax rates and taxes.

\* Total for counties grouped.

Negative sign indicates surplus would be produced if tax rate held constant.

**Local Revenue Gap**  
Theoretically, there would be no local revenue gap if state residents were willing to permit local property tax rates to rise endlessly. The local property tax rate is recomputed annually to provide whatever revenues are required to balance local budgets, thereby insuring no revenue gap. In order to measure the local gap, it has been assumed that average property tax rates are held

constant over the next decade at the 1971 levels. Under this assumption, additional revenues can be generated from the property tax only to the extent that the tax base grows over the next decade.

The local revenue gap has been computed in the following manner. First, estimates were made of total local expenditures by county for 1975 and 1980 (Table 5). Projections were made of non-property tax revenue for those years which were then subtracted from the estimates of expenditures, giving the amount of revenues to be raised via the property tax. The property tax base, in the form of the true value of taxable real estate, was also projected for each county (Table 6). Using 1971

effective property tax rates, estimates were made of the property tax yield that would be obtained from the projected bases for each county. These yields were then deducted from the required property tax revenues shown in Table 5, thereby providing the local revenue gap.

***The Committee concludes:***

**Assuming a 3% rate of inflation for both expenditures and the property tax base, the projected local revenue gap is \$143.1 million in 1975 and \$342.3 million in 1980. Assuming a 4% rate of inflation, the local revenue gap is projected at \$353.6 million for 1975 and \$788.7 million in 1980.**

**TABLE 7**  
**State of New Jersey**  
**STATE AND LOCAL FISCAL GAP**  
**ASSUMING NO PROPERTY TAX RATE INCREASES**  
**AND FULL FUNDING OF BATEMAN SCHOOL AID**  
 (Millions of Dollars)

Inflation Rate	State Gap		Local Fiscal Gap If Property Tax Rates Held At 1971 Levels		Total State and Local Fiscal Gap Assuming 1971 Property Tax Rates	
	1975	1980	1975	1980	1975	1980
3%	450.9	970.4	-134.5	42.3	316.4	1,012.7
4%	481.0	1,352.7	76.0	488.7	557.0	1,841.4

(-) denotes a surplus rather than a gap.

NOTE: The effect of inflation on state aid for schools is uncertain. The tables assume that with a cost sharing school aid formula like the Bateman Act, inflation will be reflected in the state obligation. This has not been the case with the previous foundation aid program.

**Combined State and Local Revenue Gap**

State aid accounts for more than half the total of projected state spending. This close interrelationship between state and local finance suggests the importance of considering both the state and local revenue gaps together.

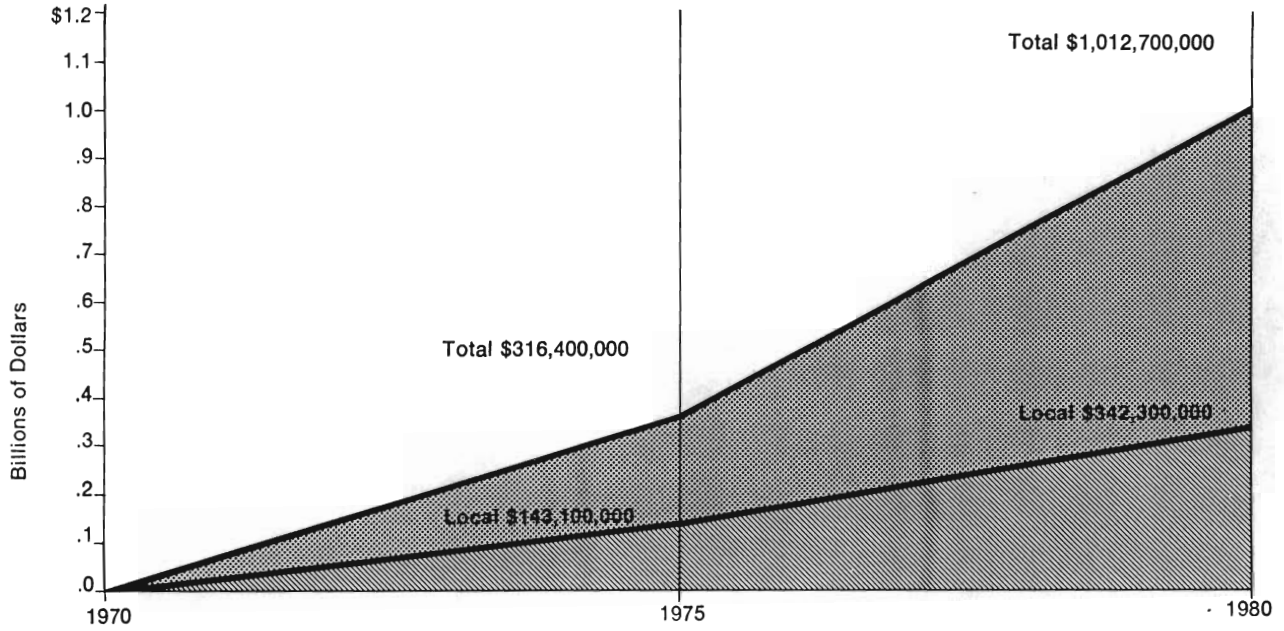
***The Committee concludes:***

**The minimum combined total gap, assuming a 3% inflation factor is estimated at \$316.4 million and \$1,012.7 million, respectively, for 1975 and 1980.**

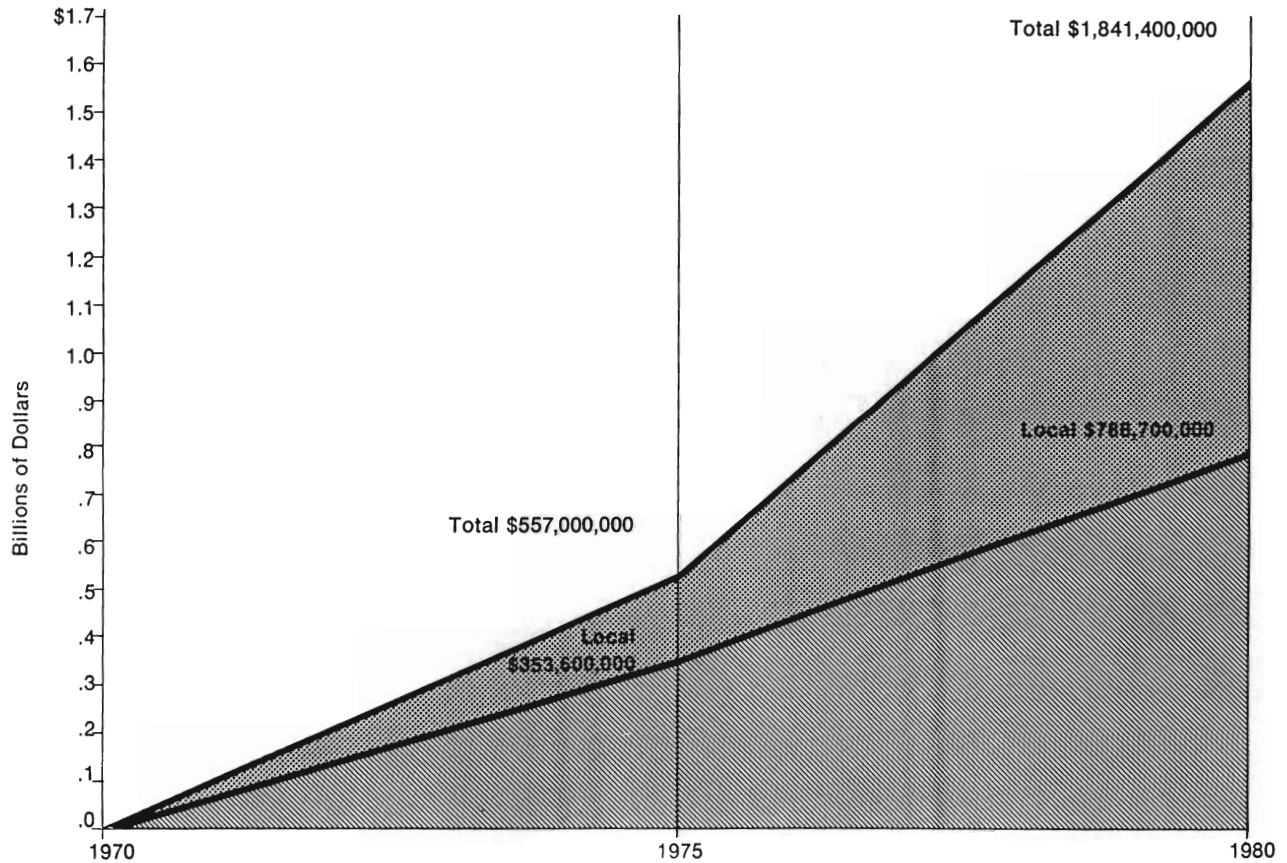
**Assuming a 4% inflation rate, the projected combined gap in 1975 would be \$557.0 million and in 1980 would be \$1,841.4 million.**

**Chart 1-1**

State of New Jersey  
**STATE AND LOCAL FISCAL GAP ASSUMING  
 NO PROPERTY TAX RATE INCREASES  
 3% INFLATION RATE**



**4% INFLATION RATE**



- State Gap (Assuming Present Bateman Funding)
- Local Gap if Property Tax Rates Held at 1971 Levels

NOTE: With full funding of Bateman School Aid, total gap remains the same—State up; Local down.

## Chapter II

# Causes and Problems of the Revenue Gap

New Jersey's ability to serve its residents effectively is dependent upon its ability to obtain tax revenues efficiently and use those funds to provide needed services in areas (such as education) where private industry cannot fill the needs. Unlike the federal government, a state government is required to balance its budget yearly. The projections of a future revenue gap indicate that this state's ability to meet the needs of its citizens will be impaired unless significant structural changes are brought about.

The basic cause of the future revenue gap lies in the discrepancy between the "income elasticity" of the expenditures and revenues of state and local government. The income elasticity of an expenditure or revenue source measures the percentage change in that item with respect to percentage changes in income. For example, when the income elasticity of a given expenditure or revenue source is 1.0, this implies that the item has changed at the same percentage rate as income. If the elasticity exceeds 1.0, percentage changes in that item exceed those of income. If the income elasticity is less than 1.0, this implies that the particular expenditure or revenue source increases at a slower rate than changes in income.

The income elasticity of departmental expenditures in New Jersey is shown in Table 8 while the income elasticity of this state's major revenue sources is dis-

played in Table 9. The estimates show that in the past, expenditures have increased at a faster pace than income, while revenues have increased at about the same rate as income. Total expenditures have an income elasticity of 1.49, while total revenues have an income elasticity of .98. For each 1% increase of personal income in New Jersey, expenditures have increased by 1.49%, or about one and one-half times as fast. For each 1% increase of personal income, revenues have increased by .98%, or about the same rate.

The fact that the income elasticity of expenditures exceeds that of revenues means that if there are no changes in the trends of the past the issue of a revenue gap will have to be faced in the future. Nevertheless, it should be noted that the disparity in the elasticity of expenditures and revenues has caused revenue gaps in the past. Revenue gaps are nothing new to this state—they have been confronted annually. The localities have met these gaps by continually increasing property tax rates. The state has had a little more leeway in meeting its revenue gaps. It has chosen both to increase existing taxes and to introduce new major revenue sources in recent years such as the retail sales tax. In addition, there have been instances where needed expenditures have been delayed or abandoned due to budgetary difficulties.

**TABLE 8**  
**State of New Jersey**  
**INCOME ELASTICITIES OF EXPENDITURES,**  
**BY DEPARTMENT**

Department	Elasticity	Department	Elasticity
Legislative .....	1.26	Health .....	1.36
Executive .....	1.26	Labor and Industry .....	1.78
Law and Public Safety .....	1.14	Conservation and	
Treasury .....	1.31	Economic Development .....	0.69
State .....	1.22	Transportation .....	1.16
Civil Service .....	1.35	Institutions and Agencies .....	1.05
Banking and Insurance .....	0.83	Misc. Executive Committee .....	1.20
Agriculture .....	0.72	Inter and Non-Departmental .....	3.89
Defense .....	0.65	Judiciary .....	1.18
Public Utilities .....	0.85	Education .....	2.23
		<b>TOTAL EXPENDITURES .....</b>	<b>1.49</b>

Source: Computed by Committee Staff.

**TABLE 9**  
**State of New Jersey**  
**INCOME ELASTICITIES OF NEW JERSEY REVENUES**

Revenue	Elasticity	Revenue	Elasticity
Motor Vehicle .....	.73 <sup>a</sup>	Parimutuel Racing .....	.48
Motor Fuels .....	.62	Cigarette Tax .....	.35
Transfer Inheritance .....	1.19	Emergency Transportation Tax .....	1.86 <sup>d</sup>
Alcoholic Beverage .....	.61	Misc. Taxes & Fees .....	1.23
Corporation Net Worth .....	.83	Department Sales & Services .....	1.60
Corporation Net Income .....	1.49 <sup>b</sup>	Other Sources .....	1.28
Foreign Insurance Corporation .....	1.24	Sales Tax .....	1.44 <sup>a</sup>
Public Utility Surtax .....	.83 <sup>c</sup>	Total Revenues .....	.98

Source: Computed by Committee staff.

Note: <sup>a</sup> yrs. 57-69

<sup>b</sup> yrs. 60-69

<sup>c</sup> yrs. 64-69

<sup>d</sup> yrs. 63-69

<sup>a</sup> N. J. tax estimated from Ohio's sales tax and regressed against N. J. income. Ohio sales tax regressed against Ohio income yields an elasticity of 1.03.

One explanation for the relatively high income elasticity of expenditures is the inherently limited capacity of government to increase productivity in those services it provides its citizens. A large percentage of total state and local spending is for services which are inherently labor-intensive, with limited productivity improvement possibilities. Thus as government wages and salaries rise in line with private wages and salaries, governments do not experience as strong productivity-gains cushioning against rising costs as do many parts of the private sector. The same reasoning explains why government budgets are particularly sensitive to inflationary pressures.

#### Alternatives Considered

(1) *Reduction of Expenditures:* A vigorous and drastic reduction of governmental expenditures, at state and local levels, is a first consideration in attempting to cope with the revenue gap. Unfortunately, a major recent effort in that direction by a special task force of management experts supplied by industry has been unable to project savings of even 10% of the state budget, but the effort should continue.

(2) *Federal Assumption of Welfare Costs:* It might be reasonable to anticipate a full federal takeover of public assistance costs during the next few years. It is unclear whether a state such as New Jersey would remain committed to some welfare expenditures in order to maintain its established standards. Optimistically, federal assumption of welfare costs by 1980 could represent a decrease in the projected gap of about \$315 million.

(3) *Federal Revenue Sharing:* The outlook for this type of proposal is difficult to evaluate, particularly in conjunction with any forecast of federal takeover of all welfare costs. If, in addition to the latter, the President's

proposed plan were adopted by the Congress, New Jersey would receive approximately \$154 million in the first full year of operation. This amount would double by 1980 if the state's relative revenue effort (as defined in the proposal) and its percentage of the total U.S. population remained unchanged.<sup>1</sup> If both revenue sharing and federal assumption of welfare costs were to come about—and there is no way of predicting when—the 1980 projected revenue gap could be reduced by as much as \$615 million.

(4) *Revision of the State and Local Revenue Structure:* The projected fiscal gaps are so large, even after allowance for the possibility of increased federal aid, that changes in the revenue structure seem inevitable. In addition, the Committee's recommendations for mas-

<sup>1</sup> At this writing, the Mills Bill (H.R. 11950, introduced November 30, 1971) is pending as an alternative to the Administration's revenue sharing proposal. The bill provides for a five-year program of \$3.5 billion per year in federal aids to local governments for public safety, environmental protection, public transportation, youth recreation, health, financial administration, and related capital expenditures. It also provides for a five-year program of \$1.8 billion per year to be allocated among the states, with each state's share to equal 15% of the amount of that state's individual income tax collected during the previous year. The bill would also fix an overall ceiling on this revenue sharing with the states for each state of 6% of the federal individual income tax collections with the state and a temporary floor for two years assuring each state not less than 1% of the federal individual income tax collections within the state. Under Section 103 of the bill, one half of the \$3.5 billion fund is to be allocated among the states on a population basis and the other half on the basis of the state's proportion of the number of families in the United States with incomes under \$4,000. This would provide New Jersey local governments with approximately 3.83% of the total, or \$67 million on a population basis and \$57 million on the low income basis for each of the five years. In addition, the state government would be entitled to \$150 million for each \$1 billion in state income tax collected but not less than \$40 million nor more than \$240 million (measured by 1969 federal income tax collections).

sive reduction in the property tax and for various revisions in state-aid programs would substantially increase the projected fiscal gaps.

**An Income Elasticity Approach**

In past years a revenue gap was avoided by recourse to new taxes or increases in the rates of existing taxes. It was only in this way that it was possible for the Governor and the Legislature to balance the State budget annually in accordance with the requirements of the State Constitution, and the annual increases in general property tax rates achieved the same result for local governments. Over the period 1961-1971 the State received revenues attributable to the adoption of new taxes and increases in rates of existing taxes,<sup>1</sup> as shown in Table 10, which generated \$749.4 million in 1971 that would not have been available had the taxes and rates in effect in 1960 remained unchanged. Over the entire ten-year period the aggregate yield of new taxes and rate increases amounted to \$4,138 million out of total revenues of \$6,958 million or 59.5 percent of the total.

**The Committee concludes:**

**The expedients of the past, which have momentarily balanced revenues and expenditures of each annual State budget, and thus avoided the accumulation of a**

**revenue gap in 1970 comparable to what has been projected for 1980, can no longer be relied upon to generate the required revenues which have been projected. Any additional exploitation of the same tax sources, to the extent that it might be possible, certainly could not provide the magnitude of funds required to achieve a massive reduction in the burden of real estate taxes, as well as to cope with the projected growth in State expenditures.**

At the present time, tax sources are generating the revenues required by state and local governments to meet their obligations. However, in the future this condition cannot be maintained without tax increases because anticipated expenditures are expected to increase faster than the revenues generated by the existing tax structure. If the "mix" of the tax system were altered so that stress were given to more income elastic levies, there would be less future need for increasing tax rates. As time progressed, the tax system would be generating additional revenues at a more rapid pace without the need for legislative intervention. Since the same revenues are required whether coming from legislative tax increases or more elastic revenue sources, the overall tax burden is unchanged.

<sup>1</sup> Not including the retail gross receipts tax, unincorporated business tax, and business personal property tax, adopted as part of replacement of local taxation of inventories and machinery and equipment used in business.

**TABLE 10**  
**State of New Jersey**  
**SELECTED ADDITIONAL REVENUES RESULTING FROM TAX CHANGES**  
**1961—1971**

Year	Cigarette		Motor Fuels		Sales	
	Revenue From All Rate Changes	Total Revenue	Revenue From All Rate Changes	Total Revenue	Revenue From All Rate Changes	Total Revenue
1960	N/A	\$ 40,766,557	N/A	\$ 103,790,292	N/A	N/A
1961	\$ 4,912,299	47,041,791	\$ 1,716,488	105,119,401	N/A	N/A
1962	16,992,730	59,474,554	21,465,677	128,794,066	N/A	N/A
1963	26,376,056	69,294,178	22,107,856	132,647,135	N/A	N/A
1964	25,361,484	67,630,623	23,101,956	138,611,736	N/A	N/A
1965	26,711,862	71,231,634	23,964,259	143,785,555	N/A	N/A
1966	29,795,716	86,235,831	25,243,280	151,459,683	N/A	N/A
1967	52,507,213	96,263,225	25,765,785	154,594,709	N/A	\$ 208,279,837
1968	55,512,486	100,371,059	26,986,995	161,921,972	N/A	238,208,358
1969	75,014,514	166,689,244	55,653,876	194,788,566	N/A	264,902,239
1970	75,645,459	117,670,714	58,756,424	205,647,483	\$ 50,801,927	355,613,486
1971	79,331,526	123,404,596	61,737,848	216,082,469	208,675,740	521,689,350
Total (1961-1971)	\$468,161,345	\$996,074,006	\$346,500,444	\$1,733,452,775	\$259,477,667	\$2,917,908,873

(Continued)

**TABLE 10 (continued)**  
**ADDITIONAL REVENUES RESULTING FROM TAX RATE CHANGES**

Year	Public Utility (For State Use)		Corporate Business	
	Revenue From All Rate Changes	Total Revenue	Revenue From All Rate Changes	Total Revenue
1960 .....	N/A	N/A	N/A	\$ 59,680,026
1961 .....	N/A	N/A	N/A	60,634,450
1962 .....	N/A	N/A	N/A	62,414,835
1963 .....	N/A	N/A	N/A	67,636,581
1964 .....	N/A	\$ 12,803,924	N/A	71,529,737
1965 .....	N/A	13,588,734	N/A	76,302,988
1966 .....	N/A	14,400,887	N/A	87,452,200
1967 .....	N/A	15,403,310	\$ 22,690,708	93,743,948
1968 .....	N/A	16,410,203	44,855,057	123,528,525
1969 .....	N/A	17,445,908	67,453,876	207,290,437
1970 .....	N/A	18,822,217	74,836,191	221,882,174
1971 .....	N/A	20,439,251	66,224,464	169,667,694
<b>Total (1961-1971)</b>	N/A	\$129,314,434	\$276,060,296	\$1,181,449,119

## Chapter III

# The Present Revenue Structure

The very size of the revenue gaps which have been projected suggests the importance of understanding the existing revenue structure as the point of beginning for any meaningful effort to close the gap through tax revision, tax reform, or simply tax increases. The prior structure is currently providing over \$3.8 billion for all levels of state and local government. Table 11, an innovative presentation by the Division of Taxation, shows how this large sum is collected or administered.

It also demonstrates the magnitude of the property tax —\$2.2 billion out of a total of \$3.8 billion, which is levied, assessed and collected by local governments. The trend and sources of major state tax collections is also presented annually in the Division's report. Table 12 takes from the current report, shows that the "top 3" in revenue raisers for the state are in order, the sales tax, motor fuels tax and corporation business tax.

**TABLE 11**  
**State of New Jersey**  
**THE STATE AND LOCAL TAX STRUCTURE**  
**BY LEVEL OF GOVERNMENTAL ADMINISTRATION, 1955-1971**  
 (in millions of dollars)

TAX YEAR	Taxes Collected by the Division of Taxation	Taxes Collected by the State Outside of the Division	Taxes Apportioned by State for Local Collection	Taxes Administered by Counties	Taxes Administered by* Municipalities	Total State and Local Taxes
1955	\$ 167.9	\$ 80.1	\$ 47.7	\$ 2.5	\$ 520.0	\$ 818.2
1956	185.2	76.8	51.8	2.7	565.9	882.4
1957	204.0	86.3	57.1	2.9	631.5	981.8
1958	206.8	87.2	66.1	3.0	696.4	1,059.5
1959	254.1	91.1	70.0	3.2	758.6	1,177.0
1960	277.6	95.5	75.5	3.5	819.6	1,271.7
1961	292.7	99.6	80.7	3.7	886.2	1,362.9
1962	336.3	102.6	90.0	4.1	956.7	1,489.7
1963	367.2	110.1	95.4	4.4	1,021.3	1,598.4
1964	407.8	118.9	99.4	4.6	1,142.7	1,773.4
1965	426.6	120.2	105.5	5.1	1,220.6	1,878.0
1966	466.2	125.3	111.7	5.5	1,262.8	1,971.5
1967	706.7	127.1	119.5	5.9	1,444.7	2,403.9
1968	818.0	134.8	127.2	6.4	1,553.0 <sup>1</sup>	2,639.4
1969	1,013.1	159.9	135.9	10.4	1,677.7 <sup>1</sup>	2,993.6
1970	1,153.0	168.6	146.2	19.5	1,933.8 <sup>1</sup>	3,417.3
1971	1,310.0 <sup>2</sup>	173.2 <sup>3</sup>	159.0	21.3	2,188.3 <sup>1</sup>	3,851.8

<sup>1</sup> Effective in 1968, business tangible personal property other than telephone and telegraph, was eliminated from the local tax base in favor of replacement taxes collected by the State for distribution to the local taxing districts.

<sup>2</sup> Does not include Bank Stock Taxes paid to the State by counties (1970-\$3,684,772; 1971-\$7,843,129).

<sup>3</sup> Does not include \$33,362,066 collected by the Lottery Commission.

\*Exclusive of Atlantic City Luxury Sales Tax Collections:

1955	\$1,546,985.32	1963	\$1,842,467.39
1956	1,584,672.50	1964	1,853,252.09
1957	1,645,039.56	1965	2,005,564.46
1958	1,555,976.25	1966	2,100,804.16
1959	1,808,101.18	1967	2,066,634.24
1960	1,778,585.22	1968	2,973,159.04
1961	1,742,352.35	1969	3,319,758.18
1962	1,810,259.61	1970	3,714,149.87
		1/1-6/30-1971	1,273,569.94

Source: N.J. Division of Taxation, Annual Report, 1971, p. 11.

**TABLE 12**  
**State of New Jersey**  
**MAJOR STATE TAX COLLECTIONS (NET) 1969-1971**

Collected by Division of Taxation	Collections for Fiscal Years						Percent Change	
	1971	% of Total	1970	% of Total	1969	% of Total	1971-1970	1970-1969
Alcoholic Beverage Tax	\$ 43,513,113	2.9%	\$ 42,474,480	3.2%	\$ 36,033,318	3.1%	+ 2.4%	+ 17.9%
Bank Stock Tax	7,843,129	0.5	3,684,773	0.3	—	—	+ 112.9	—
Business Personal Property Tax	50,978,295	3.4	45,842,490	3.5	41,950,322	3.6	+ 11.2	+ 9.3
Cigarette Tax	123,804,999	8.3	117,921,850	8.9	116,940,470	10.0	+ 5.0	+ 0.8
Corporation Business Tax	169,667,694 <sup>1</sup>	11.4	221,812,921	16.7	207,223,401	17.7	- 23.5	+ 7.0
Emergency Transportation Tax	18,498,782	1.2	17,030,300	1.3	14,601,810	1.2	+ 8.6	+ 16.6
Financial Business Tax	3,581,862	0.2	4,250,048	0.3	1,724,380	0.1	- 84.3	+ 146.5
Insurance Premiums Tax	43,283,820	2.9	34,690,167	2.6	33,545,404	2.9	+ 24.8	+ 3.4
Motor Fuels Tax	210,255,462	14.1	199,599,110	15.1	187,392,295	16.0	+ 5.3	+ 6.5
Outdoor Advertising Tax	236,664	<0.1	126,171	<0.1	130,298	<0.1	+ 87.6	- 3.2
Public Utility Excise Tax	30,670,472 <sup>2</sup>	2.1	18,822,217	1.4	17,445,908	1.5	+ 62.9	+ 7.9
Railroad Franchise Tax	52,790	<0.1	97,948	<0.1	151,665	<0.1	- 46.1	- 35.4
Railroad Property Tax	7,312,073 <sup>3</sup>	.49	7,434,522	0.6	7,981,270	0.7	- 1.6	- 6.9
Retail Gross Receipts Tax	4,574,104	0.3	3,948,827	0.3	3,837,995	0.3	+ 15.8	+ 2.9
Sales and Use Tax	521,689,350 <sup>4</sup>	34.9	355,613,486	26.8	264,902,239	22.6	+ 46.7	+ 34.2
Transfer Inheritance Tax	63,490,326	4.3	64,236,363	4.8	62,610,564	5.3	- 1.2	+ 2.6
Estate Tax	1,550,239	0.1	2,414,618	0.2	565,688	<0.1	- 35.8	+ 326.8
Unincorporated Business Tax	17,098,182	1.1	16,695,230	1.3	16,074,007	1.4	+ 2.4	+ 3.9
<b>Total Collected by the Division of Taxation</b>	<b>\$1,317,924,099</b>	<b>88.4%</b>	<b>\$1,156,695,521</b>	<b>87.3%</b>	<b>\$1,013,111,034</b>	<b>86.4%</b>	<b>+ 13.9%</b>	<b>+ 14.2%</b>
<b>Collected Outside Division of Taxation</b>								
Boxing—Wrestling Taxes	\$ 30,109	<0.1%	\$ 22,927	<0.1%	\$ 17,900	<0.1%	+ 31.3%	+ 28.1%
Motor Carriers Road Tax	3,552,064	0.2	3,157,312	0.2	2,269,805	0.2	+ 12.5	+ 39.1
Motor Vehicle Fees	134,880,120	9.0	130,232,394	9.8	122,229,476	10.4	+ 3.6	+ 6.5
Pari-Mutuel Taxes	34,717,612	2.3	35,239,189	2.7	35,456,581	3.0	- 1.5	- 0.6
<b>Total Collected Outside Division</b>	<b>\$ 173,179,905</b>	<b>11.6%</b>	<b>\$ 168,651,822</b>	<b>12.7%</b>	<b>\$ 159,973,762</b>	<b>13.6%</b>	<b>+ 2.7%</b>	<b>+ 5.4%</b>
<b>Total Major State Tax Collections</b>	<b>\$1,491,104,004</b>	<b>100.0%</b>	<b>\$1,325,347,343</b>	<b>100.0%</b>	<b>\$1,173,084,796</b>	<b>100.0%</b>	<b>+ 12.5%</b>	<b>+ 13.0%</b>

<sup>1</sup> Revenue decrease anticipated in view of termination of accelerated tax collection.

<sup>2</sup> Increase due to accelerated tax provision (c. 108 & 109, P.L. 1971).

<sup>3</sup> Represents the assessment levied against railroads but only \$2,585,994 was collected because of Penn Central tax default.

<sup>4</sup> Reflects 5% tax for full year.

NOTE: Difference in totals due to rounding. Above revenue figures are reported on a cash collection basis, except for sales tax and financial business tax. Totals may vary somewhat from revenue figures reporting actual collections.

Source: N.J. Division of Taxation, 1971 Annual Report, p. 13.

The tax sources used by New Jersey are similar to those used in other states, with the notable exception of the individual income tax. Concurrently, New Jersey employs the property tax at the local level to a greater extent than most other states, so that 54.4% of all state and local taxes comes from the local property tax as compared with 38.7%, on the average, in the United States.

The burden of New Jersey's tax system as compared with other states may be measured in a variety of ways. Among the standard measures New Jersey ranked as follows among the 50 states in 1970:

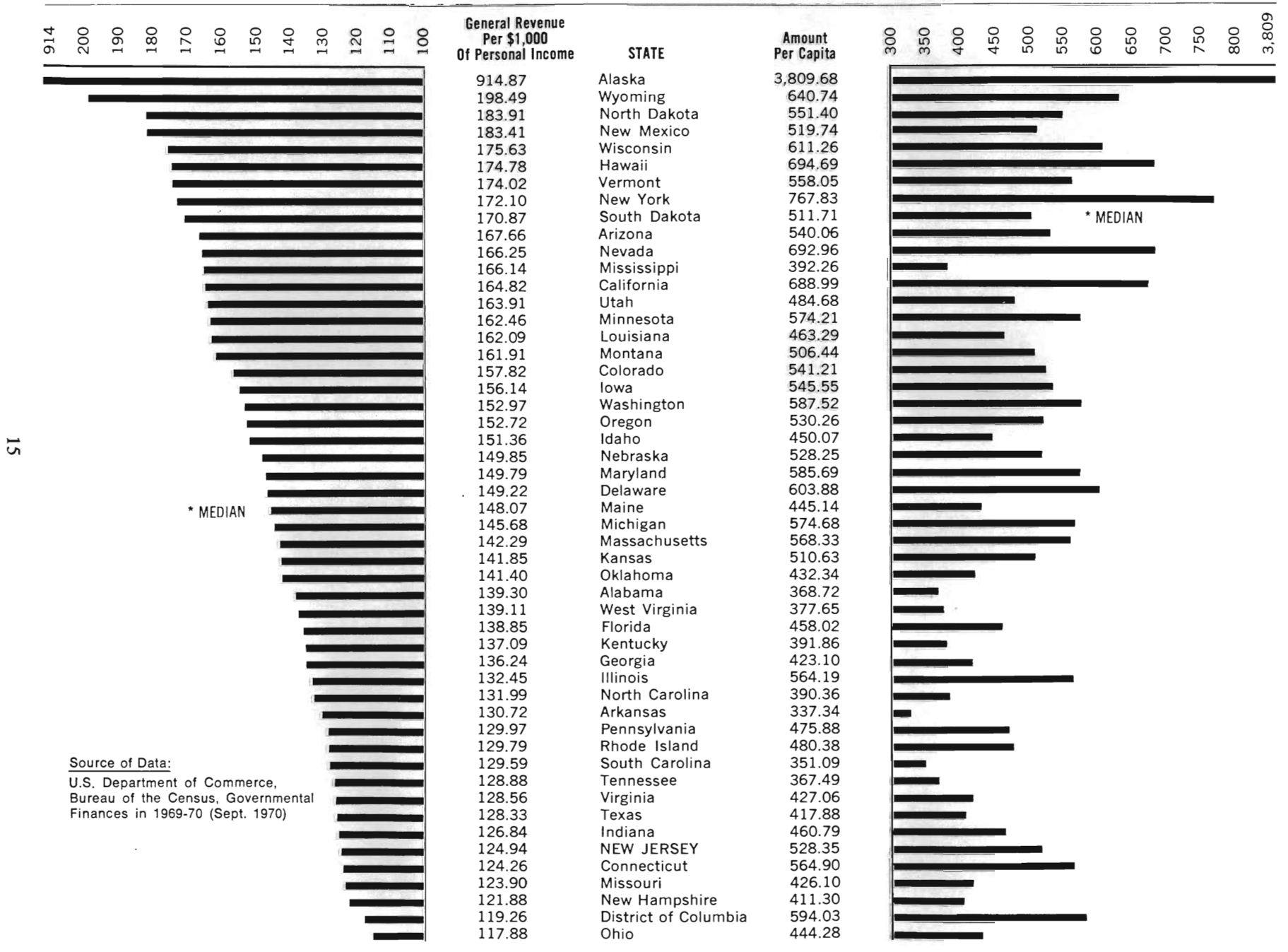
	Per Capita	Per \$1000 of personal income
State and local general revenues from own sources	22nd	46th
Combined state and local taxes	14th	34th
Property taxes	3rd	12th

These rankings are derived from figures published in *Governmental Finances in 1969-1970* by the U.S. Bureau of the Census.

The tax burdens in any one state may also be compared in relation to those in other states by reference to total income earned in the states. As shown in Table 13, in 1969 all state and local taxes in New Jersey amounted to 10.3% of personal income in the state. This was 92% of the U.S. average of all states. It was also about a median level among the selected industrial states.

A possible disadvantage of increasing the income elasticity of the state revenue system is that it would make the state budget more vulnerable to cyclical declines in the economy. To avoid this risk, federal revenue sharing, if any, would be an ideal mechanism to provide counter-cyclical revenues to the states, as the need arises.

Chart 1-2—State of New Jersey  
 COMPARATIVE RANKS OF STATES IN BURDEN OF ALL GENERAL REVENUES  
 PER CAPITA AND PER \$1,000 OF INCOME—(Fiscal 1969-1970)



Source of Data:  
 U.S. Department of Commerce,  
 Bureau of the Census, Governmental  
 Finances in 1969-70 (Sept. 1970)

**TABLE 13—State of New Jersey**  
**MEASURES OF STATE-LOCAL REVENUES EFFORT, BY STATE, 1964 AND 1969**  
**[State and Local Taxes and charges related to total State Personal Income]**

State	Taxes and charges as a percent of State personal income <sup>1</sup>				Taxes as a percent of State personal income			
	Percent of income		State percent related to U.S. average		Percent of income		State percent related to U.S. average	
	1969	1964	1969	1964	1969	1964	1969	1964
United States .....	14.0	12.7	100	100	11.2	10.4	100	100
Alabama .....	13.5	12.5	96	98	9.5	9.6	85	92
Alaska .....	16.1	12.6	115	99	9.7	8.1	87	78
Arizona .....	16.4	14.9	117	117	13.0	12.0	116	115
Arkansas .....	12.7	12.2	91	96	9.6	9.8	86	94
California .....	16.7	14.7	119	116	13.7	12.1	122	116
Colorado .....	15.4	13.8	110	109	11.9	11.1	106	107
Connecticut .....	11.1	10.4	79	82	9.3	8.9	83	86
Delaware .....	13.9	11.1	99	87	9.9	8.2	88	79
Dist. of Columbia .....	10.8	9.7	77	76	9.5	8.2	85	79
Florida .....	14.0	13.6	100	107	10.7	10.5	96	101
Georgia .....	13.3	12.4	95	98	9.9	9.7	88	93
Hawaii .....	17.2	15.0	123	118	14.1	11.4	126	110
Idaho .....	15.9	14.2	114	112	12.6	11.3	113	109
Illinois .....	11.2	10.5	80	83	9.4	9.0	84	87
Indiana .....	12.6	12.3	90	97	9.9	9.9	88	95
Iowa .....	14.9	13.6	106	107	11.9	11.2	106	108
Kansas .....	13.6	14.1	97	111	10.6	11.6	95	112
Kentucky .....	13.7	11.8	98	93	10.5	9.3	94	89
Louisiana .....	15.8	16.0	113	126	11.4	11.9	102	114
Maine .....	13.0	12.6	93	99	10.9	10.8	97	104
Maryland .....	13.4	11.0	96	87	11.0	9.0	98	87
Massachusetts .....	13.5	11.5	96	91	11.8	10.2	105	98
Michigan .....	14.6	13.2	104	104	11.7	10.8	104	104
Minnesota .....	16.0	15.1	114	119	12.3	12.2	110	117
Mississippi .....	15.6	14.5	111	114	11.7	11.2	104	108
Missouri .....	11.7	10.2	84	80	9.3	8.5	83	82
Montana .....	15.3	14.7	109	116	12.0	11.7	107	113
Nebraska .....	14.9	12.1	106	95	11.3	9.4	101	90
Nevada .....	16.1	13.3	115	105	12.0	10.3	107	99
New Hampshire .....	11.5	11.1	82	87	9.4	9.3	84	89
New Jersey .....	12.1	10.6	86	83	10.3	9.0	92	87
New Mexico .....	17.7	16.7	126	131	12.1	11.6	108	112
New York .....	16.6	14.0	119	110	14.0	11.8	125	113
North Carolina .....	12.6	12.2	90	96	9.9	9.9	88	95
North Dakota .....	18.8	16.7	134	131	12.1	11.8	108	113
Ohio .....	11.3	10.9	81	86	8.8	8.8	79	85
Oklahoma .....	14.1	13.5	101	106	10.2	10.3	91	99
Oregon .....	15.4	13.8	110	109	11.8	10.7	105	103
Pennsylvania .....	11.8	11.0	84	87	10.0	9.2	89	88
Rhode Island .....	12.4	11.2	89	88	10.6	9.9	95	95
South Carolina .....	12.4	12.0	89	94	9.5	9.4	85	90
South Dakota .....	16.0	14.8	114	117	12.3	11.7	110	113
Tennessee .....	12.5	12.1	89	95	9.8	9.7	88	93
Texas .....	12.3	12.4	88	98	9.3	9.7	83	93
Utah .....	15.3	13.7	109	108	11.9	11.3	106	109
Vermont .....	15.2	13.8	109	109	12.9	12.0	115	115
Virginia .....	12.7	10.9	91	86	10.4	8.6	93	83
Washington .....	15.3	14.3	109	113	11.5	10.9	103	105
West Virginia .....	13.5	12.3	96	97	10.7	10.0	96	96
Wisconsin .....	15.9	14.8	114	117	13.1	12.6	117	121
Wyoming .....	19.5	15.3	139	120	13.2	10.9	118	105

Note: Revenue effort presents only one side of the fiscal equation—the variations in the quality of public services while not directly measurable are at least partially responsible for the range in effort. It should also be noted that while certain communities make a heavier use of fees and charges others place greater emphasis on taxes to finance local public services.

<sup>1</sup> Total State and local tax collections plus all charges and miscellaneous general revenue, which conforms to the U.S. Bureau of the Census definition of "General Revenue From Own Sources."

Source: ACIR, *State-Local Finances and Suggested Legislation*, Dec. 1970, compiled from U.S. Bureau of the Census, *Governmental Finances in 1963-64 and 1968-69*.

In March of 1971 the Advisory Committee on Intergovernmental Relations published a more sophisticated way of comparing the tax capacity and tax effort of the various states. This new approach establishes an "average-financing system" from the experience of all of the 50 states. It then develops the taxing capacity of each state as compared with the U.S. average in relation to this average financing system. By comparing tax revenue with tax capacity, it is possible to arrive at a relative tax effort index. As shown in Table 14, in Fiscal 1969, according to this system, New Jersey had a per capita tax capacity of \$410 and raised \$411; its index of tax capacity was 106 and of tax revenue was 106, and thus its relative tax effort was 100. This says, in effect, that the total amount being raised in New Jersey by state and local taxation is about average.

Thus, although by some measures (e.g., state and local taxes raised per dollar of personal income) New Jersey's tax effort lags most other states, by other measures, New Jersey does not appear to be out of line with other states when its combined state-local tax burden is considered. But what is clear is that the State's revenue *structure* is deficient; the New Jersey structure is less income elastic and diversified than other states. This implies that less weight should be given to property taxation and consideration be given to more elastic revenue sources. Such a reorganization of the tax structure can yield a redistribution of tax burdens among different income classes without increasing or decreasing the overall tax burden.

#### **Distribution of the Tax Burden By Income Classes in New Jersey**

Such an approach requires, as a starting point, a basic understanding of the present distribution of the tax burden in New Jersey by income classes and this issue, in turn, cannot be properly understood without some attention to the extent of "tax exporting".<sup>2</sup> Tax exporting comes about primarily because of various offsets against federal taxes. It also occurs in the transfer of the tax burden to nonresident stockholders in some cases.<sup>3</sup> In addition to studying the distribution among income classes of the net burden of the New Jersey tax system itself, we have made a partial attempt to analyze the entire tax burden on residents by including the burden of the federal individual income tax.<sup>4</sup>

#### **Net Tax Burdens**

The estimates of what net tax burden is imposed upon New Jersey residents on account of their state and local government and how this burden is distributed among income classes is summarized in Tables 15 through 18. The first table presenting data on overall tax incidence in New Jersey is Table 15, where informa-

tion is provided on the proportion of New Jersey's tax burden falling on residents. For the tax structure as a whole about 20 percent of the tax burden is exported. Most of the amount shifted outside of New Jersey is due to various offsets against federal taxes; the residual is exported almost entirely to nonresident stockholders according to assumptions followed in this study.

Of the \$653 million in taxes exported outside of New Jersey, \$342 million or over half was due to the exporting of property levies. Among the taxes shown in Table 15, the fraction paid by residents was lowest for corporation business, spectator admissions, and railroad taxes, and, of course, the commuter benefits tax which is levied only on nonresidents. The fraction paid by residents was highest for excise taxes on cigarettes and alcoholic beverages, and motor vehicle registration fees.

The information presented in Table 15 is not intended to imply that one tax is preferred over another simply because a large portion of that tax is exported outside of New Jersey. The primary purpose in deriving estimates of tax exporting is to facilitate the calculation of net tax burdens imposed on residents of New Jersey by taxes levied in this state. Accordingly, only the amount of taxes estimated as paid by New Jersey residents is included in these calculations.

#### **Tax Burden Shares**

The distribution of tax payments by income class, both in absolute amounts and in percentage terms, is displayed in Table 16. Once again, it is worth reiterating that only the fraction of state and local levies estimated as falling on New Jersey residents is included in Tables 16, 18 and 19.<sup>5</sup> From Table 16, it can be seen that the larger share of state and local tax revenues is derived from payments by those in the \$10,000 to \$15,000 income class. More importantly, this class pays about 32 percent of state and local taxes, while having 29 percent of the total money in New Jersey (Table 17). This is not the only income class whose tax burden share exceeds its proportion of income. For all income

<sup>2</sup>At the time of this study, Fiscal 1970 was the latest year for which income data were available for New Jersey.

<sup>3</sup>In measuring the amount of tax exporting, an average figure was calculated for New Jersey residents. It is impossible to calculate the degree of tax exporting for each income group separately, because of differences in the concept of income used on federal tax returns and other data sources. By using an average measure of tax exporting, we are underestimating the net burden of New Jersey taxation on lower income classes while overstating the burden on the highest income groups.

<sup>4</sup>To look at the burden on New Jersey residents of all federal taxes would have been a major study in itself. Since the individual income tax is the largest revenue source in the federal system, we were content to study its impact only.

<sup>5</sup>In all these tables, the impact of the increase in the sales tax rate from 3% to 5% was also studied. In terms of the overall burden, the impact was negligible.

categories under \$15,000, the percentage of total tax payments exceeds the share of income. Only the two highest income groups were in the position of having an income share surpassing their tax burden share.

Of the total tax burden of \$2,741 million on residents of this state, 5.3 percent fell on the two lowest income classes. At the same time, these families accounted for only 3.4 percent of the state income.

TABLE 14  
State of New Jersey  
MEASURES OF STATE-LOCAL TAX CAPACITY AND TAX EFFORT FOR STATES: 1968-69

State	Per capita amounts			Index measures (per capita amounts as per cent of U.S. averages)				Per cent change 1966-67 to 1968-69			
	Tax capacity	Tax revenue	Personal income (1968)	Tax capacity	Tax revenue	Personal income (1968)	Relative tax effort <sup>1</sup>	Per capita tax capacity	Per capita tax revenue	Per capita personal income	Relative tax effort
U.S. ....	386	386	3,421	100	100	100	100	23.3	23.3	14.8	—
Alabama .....	270	227	2,337	70	59	68	84	23.3	17.0	13.7	— 5.1
Alaska .....	403	399	4,146	104	103	121	99	29.6	23.1	19.4	— 5.0
Arizona .....	381	393	3,027	99	102	88	103	27.9	20.9	18.2	— 5.8
Arkansas .....	299	222	2,322	77	58	68	74	24.1	11.0	14.0	— 10.5
California .....	472	547	3,968	122	142	116	116	22.0	31.2	13.7	7.5
Colorado .....	398	392	3,340	103	102	98	98	22.1	13.6	15.1	— 6.8
Connecticut .....	451	397	4,256	117	103	124	88	23.2	16.8	14.7	— 5.4
Delaware .....	465	377	3,795	120	98	111	81	21.1	9.3	10.0	— 10.0
Dist. of Columbia .....	465	426	4,464	120	110	130	92	23.0	24.9	15.8	1.4
Florida .....	419	338	3,191	109	88	93	81	28.9	23.4	20.2	— 4.7
Georgia .....	314	273	2,781	81	71	81	87	26.1	18.7	17.3	— 5.7
Hawaii .....	381	492	3,513	99	127	103	129	22.9	18.0	13.7	— 4.1
Idaho .....	338	340	2,668	88	88	78	100	18.2	13.7	10.8	— 4.1
Illinois .....	431	376	3,981	112	97	116	87	20.7	24.9	12.0	3.4
Indiana .....	375	338	3,412	97	88	100	90	20.6	14.2	11.6	— 5.5
Iowa .....	385	395	3,265	100	102	95	103	18.5	17.2	8.4	— .9
Kansas .....	405	351	3,303	105	91	97	87	23.5	11.4	14.1	— 9.7
Kentucky .....	312	278	2,645	81	72	77	89	25.3	31.1	17.2	5.1
Louisiana .....	364	301	2,634	94	78	77	83	23.4	13.6	15.9	— 8.0
Maine .....	316	321	2,824	82	83	83	102	24.4	20.2	13.8	— 3.2
Maryland .....	398	416	3,742	103	108	109	105	25.6	27.6	15.7	1.9
Massachusetts .....	382	455	3,835	99	118	112	119	25.2	22.6	16.5	— 2.0
Michigan .....	404	439	3,675	105	114	107	109	23.9	35.1	12.8	9.0
Minnesota .....	367	413	3,341	95	107	98	112	23.6	16.7	15.3	— 5.6
Mississippi .....	252	245	2,081	65	63	61	98	25.4	24.4	17.9	—
Missouri .....	373	304	3,257	97	79	95	81	22.7	15.6	15.7	— 5.8
Montana .....	391	356	2,942	101	92	86	91	18.5	15.6	10.3	— 2.6
Nebraska .....	416	361	3,239	108	94	95	87	20.9	33.7	10.1	10.7
Nevada .....	669	475	3,957	173	123	116	71	24.8	24.3	13.8	— .6
New Hampshire .....	422	325	3,259	109	84	95	77	23.0	16.9	15.0	— 4.8
New Jersey .....	410	411	3,954	106	106	116	100	22.4	26.9	14.3	3.5
New Mexico .....	355	324	2,651	92	84	77	91	21.2	20.4	12.3	— .9
New York .....	418	580	4,151	108	150	121	139	23.3	23.7	16.7	.4
North Carolina .....	308	267	2,664	80	69	78	87	25.7	16.1	16.6	— 7.9
North Dakota .....	352	333	2,730	91	86	80	95	22.6	19.8	11.8	— 2.4
Ohio .....	387	318	3,509	100	82	103	82	23.2	23.7	13.6	.6
Oklahoma .....	392	290	2,880	102	75	84	74	22.9	14.2	16.1	— 7.2
Oregon .....	401	406	3,317	104	105	97	101	21.1	21.6	12.6	.4
Pennsylvania .....	350	346	3,419	91	90	100	99	22.8	22.7	14.6	— .4
Rhode Island .....	355	380	3,549	92	98	104	107	25.0	27.9	15.9	2.1
South Carolina .....	254	227	2,380	66	59	70	89	25.7	15.8	16.3	— 8.0
South Dakota .....	349	353	2,876	90	91	84	101	22.9	16.5	16.4	— 5.2
Tennessee .....	302	254	2,579	78	66	75	84	24.3	19.8	15.4	— 3.2
Texas .....	388	280	3,029	101	73	89	72	26.4	21.2	17.5	— 4.0
Utah .....	326	337	2,790	84	87	82	104	20.3	11.6	12.0	— 7.1
Vermont .....	339	394	3,072	88	102	90	116	23.3	20.1	15.3	— 2.6
Virginia .....	337	323	3,068	87	84	90	96	24.8	32.9	17.6	6.7
Washington .....	424	434	3,688	110	112	108	102	20.8	17.3	14.3	— 2.9
West Virginia .....	284	269	2,470	74	70	72	95	21.4	19.0	13.5	— 1.7
Wisconsin .....	358	441	3,363	93	114	98	123	21.8	21.5	13.0	— .2
Wyoming .....	530	413	3,190	137	107	93	78	20.2	19.0	14.7	— .8

<sup>1</sup> Tax revenue as a percent of tax capacity.

Source: ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas*, (March 1971), Table G-14.

TABLE 15  
State of New Jersey  
**PROPORTION OF NEW JERSEY TAXES  
PAID BY NEW JERSEY RESIDENTS: FISCAL 1970**  
(millions of dollars)

	Total Tax	Portion Exported Outside of N.J.	Net Burden on N.J. Residents	% Exported	% on N.J. Residents
Property Taxes .....	\$1,924.4	\$341.9	\$1,582.5	17.6%	82.4%
Sales & Use Tax .....	355.6	68.3	287.3	19.2	80.8
Corporation Business Taxes .....	221.8	113.8	108.0	51.3	48.7
Public Utility Taxes .....	203.6	41.0	162.6	20.1	79.9
Motor Fuels Taxes .....	199.6	30.1	169.5	15.1	84.9
Motor Vehicle Fees .....	130.2	—	130.2	0.0	100.0
Cigarette Taxes .....	117.9	—	117.9	0.0	100.0
Beverage Taxes .....	42.5	—	42.5	0.0	100.0
Inheritance & Estate Taxes .....	66.6	13.3	53.3	20.0	80.0
Insurance Taxes .....	40.4	6.1	34.3	15.1	84.9
Spectator Sports Taxes .....	35.2	14.1	21.1	41.1	59.9
Commuter Benefits Tax .....	17.0	17.0	0.0	100.0	0.0
Railroad Taxes .....	7.4	7.2	.2	97.3	2.7
Other Taxes .....	31.9	0.0	31.9	0.0	100.0
<b>Totals</b> .....	<b>\$3,394.1</b>	<b>\$652.8</b>	<b>\$2,741.3</b>	<b>19.2%</b>	<b>80.8%</b>

With regard to specific taxes, the percentage borne by the lowest income groups was highest for property and tobacco taxes. The two top income classes received about 41 percent of total income while bearing less than one-third of the tax burden. The highest income category, in particular, enjoyed a relative income share exceeding its tax burden share. Four-fifths of the consumer units in New Jersey had a tax share higher than their share of state income.

If the most important tax source is excluded from the figures, the tax burden share declines for those income groups under \$10,000 while increasing for those above this level. The last row in Table 16 contains information on the distribution of tax burdens without the property tax. Under these circumstances, even the \$15,000 under \$25,000 income class bears a tax burden share higher than its proportion of total income.

#### Effective Tax Rates

Table 18 presents data displaying the pattern of effective tax rates by income class and type of tax. The effective rates were computed by expressing the absolute amount of tax paid in each income category as a percentage of total money income in that class. The manner in which effective tax rates change as one moves through the income distribution provides a basis for determining the progressivity of specific levies. A progressive tax is often defined as one in which the effective tax rate increases as income increases. A proportional tax may be defined as one for which the effective rate

remains constant as income increases and a regressive levy as one in which the tax rate decreases as income increases. Unfortunately, few of the effective rate estimates for specific levies conform precisely to such simple definitions.

#### The total state and local tax burden on New Jersey residents amounted to over 10 percent of money income in Fiscal 1970.

This percentage represents an increase over that calculated a few years previously, implying that state and local taxes have increased at a faster rate than money income. For all income classes under \$15,000, the effective tax rate exceeded that for all consumer units in the state. The rate for the lowest income group was almost twice as great as that for all families. State and local levies absorb almost one-fifth the annual income of those in the under \$3,000 income class. The discrepancy between the effective tax rates falling upon the lowest income class and other units is almost solely attributable to the property tax. This levy is responsible for generating more than half of total state and local tax revenues. The effective tax rate of this levy falls twice as hard on the under \$3,000 group as on any of the four income classes above \$7,500.

As can be seen from the last row in Table 18, without the property tax, the discrepancy of effective tax rates is considerably narrower under this situation. Besides the property tax, public utility and tobacco taxes impose higher effective rates on the under \$5,000 income groups than any other class. The liberal exemptions

**TABLE 16**  
**State of New Jersey**  
**ESTIMATED DISTRIBUTION OF TAXES PAID BY NEW JERSEY RESIDENTS,**  
**BY INCOME CLASS, IN AMOUNTS AND PERCENTAGES**  
(Millions of Dollars)

Type of Tax	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
Property Taxes \$1,582.5	\$ 37.2 2.4%	60.4 3.8%	218.1 13.8%	293.7 18.6%	495.1 31.3%	369.7 23.4%	108.3 6.8%
Corporation Business Taxes \$108.0	\$ 1.1 1.0%	2.5 2.3%	9.9 9.2%	12.8 11.9%	26.7 24.7%	24.9 23.0%	30.3 28.0%
Sales and Use Tax \$287.3	\$ 2.6 .9%	8.9 3.1%	27.3 9.5%	50.0 17.4%	95.1 33.1%	80.4 28.0%	23.0 8.0%
Public Utility Taxes \$162.6	\$ 2.6 1.6%	5.5 3.4%	22.0 13.5%	29.5 18.1%	53.6 33.0%	39.7 24.4%	9.9 6.1%
Motor Fuels Taxes \$169.5	\$ 1.4 .8%	4.6 2.7%	22.2 13.1%	34.8 20.5%	62.9 37.1%	36.8 21.7%	6.9 4.1%
Motor Vehicle Fees \$130.2	\$ 1.2 .9%	3.4 2.6%	15.4 11.9%	24.6 18.9%	44.4 34.2%	31.8 24.5%	9.2 7.1%
Insurance Taxes \$34.3	\$ .3 .9%	.8 2.3%	3.7 10.8%	5.8 17.0%	11.2 32.7%	10.1 29.5%	2.3 6.7%
Tobacco Taxes \$117.9	\$ 2.6 2.2%	6.8 5.8%	20.5 17.4%	24.4 20.7%	36.4 30.9%	22.5 19.1%	4.6 3.9%
Alcoholic Beverage Taxes \$42.5	\$ .5 1.2%	1.1 2.6%	3.3 7.8%	7.0 16.5%	12.5 29.4%	14.8 34.8%	3.4 8.0%
Spectator Admissions Taxes \$21.1	\$ .1 .4%	.5 2.6%	1.8 8.7%	3.8 17.8%	7.6 36.1%	6.0 28.6%	1.2 5.7%
Inheritance-Estate Taxes \$53.3	—	\$ .1 .4%	1.2 2.3%	.9 1.6%	11.4 21.3%	35.4 66.4%	4.3 8.1%
Other Taxes \$31.9	\$ .4 1.4%	1.0 3.2%	4.1 12.7%	5.7 17.9%	10.2 32.1%	8.3 26.0%	2.1 6.7%
Total Taxes \$2741.1 100.0%	\$ 50.0 1.8%	95.6 3.5%	349.5 12.8%	493.0 18.0%	867.1 31.6%	680.4 24.8%	205.5 7.5%
Total Taxes Excluding Property Taxes \$1,158.3 100.0%	\$ 12.8 1.1%	35.2 3.0%	131.4 11.3%	199.3 17.2%	372.0 32.1%	310.7 26.8%	97.2 8.4%

provided under the state sales tax appear to have been successful in eliminating the alleged regressivity of such taxation.<sup>6</sup> The overall regressivity of the tax structure is most pronounced for about 10 percent of the consumer units who happen to fall in the lowest and highest income classes. Although only 3 percent of the consumer units earn \$25,000 or more, this group accounts for almost one-seventh of total money income in New Jersey. This group is exposed to an effective rate of around 5 percent whereas the average effective tax rate for all income classes combined is slightly over 10 percent.

#### Mean Tax Payments

Estimated mean tax payments per household by income class and type of tax are shown in Table 19. The mean tax payment for all consumer units amounted to over \$1,200 in Fiscal 1970. The property tax alone is estimated to have cost, on average, over \$700. This

<sup>6</sup> Some evidence exists indicating that the exemptions may be too generous. See Jeffrey M. Schaefer, "Clothing Exemptions and Sales Tax Regressivity," *The American Economic Review*, LIX (Sept. 1969), pp. 596-99; and "Sales Tax Regressivity Under Alternative Tax Bases and Income Concepts," *National Tax Journal*, XXII (Dec. 1969), pp. 516-27.

Chart 1-3

State of New Jersey

ESTIMATED DISTRIBUTION OF TAXES PAID BY INCOME CLASSES,  
AND ESTIMATED DISTRIBUTION OF MONEY INCOME IN NEW JERSEY

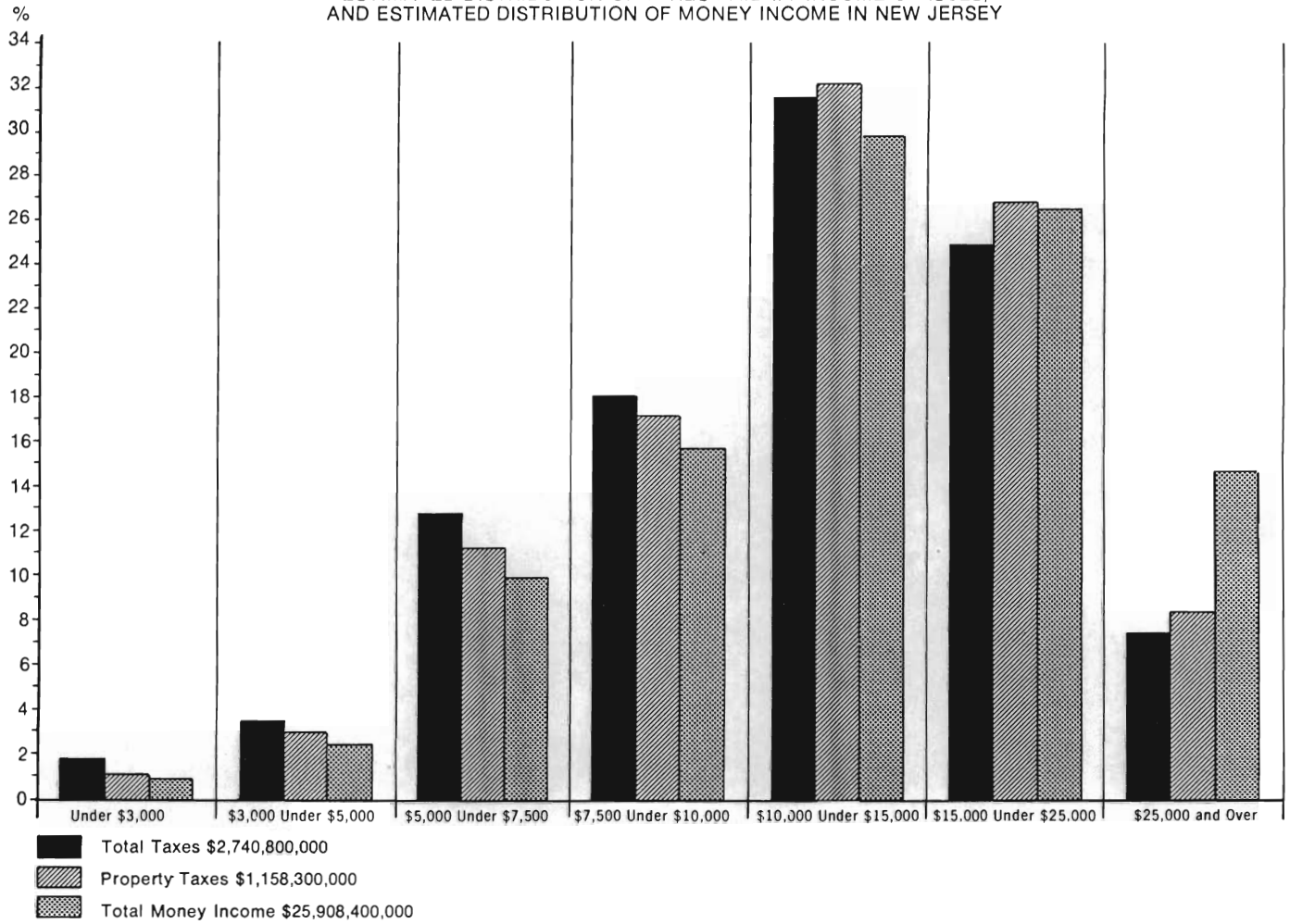


TABLE 17

State of New Jersey

ESTIMATED DISTRIBUTION OF MONEY INCOME IN NEW JERSEY FOR FISCAL 1970

	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
Estimated Number of Consumer Units	(thousands)						
2,228.3	122.6	162.7	396.6	467.9	637.3	374.4	69.1
Percent 100.0%	5.5%	7.3%	17.8%	21.0%	28.6%	16.8%	3.1%
Mean Money Income	(dollars)						
\$11,627	\$2,136	\$3,852	\$6,437	\$8,737	\$12,098	\$18,352	\$54,986
Total Money Income	(millions)						
\$25,908.4	\$261.8	\$626.6	\$2,553.2	\$4,088.4	\$7,710.0	\$6,870.1	\$3,798.3
Percent 100.0%	1.0%	2.4%	9.9%	15.8%	29.8%	26.5%	14.7%

levy dwarfs the second largest tax—the sales tax—which cost residents over \$100. The mean total tax payment for different income categories ranged from a low of \$408 for the under \$3,000 income class to a high of almost \$3,000 for those in the \$25,000 and over category. In moving from the lower to upper income groups, there are a few instances encountered where the mean tax payment decreases as income increases.

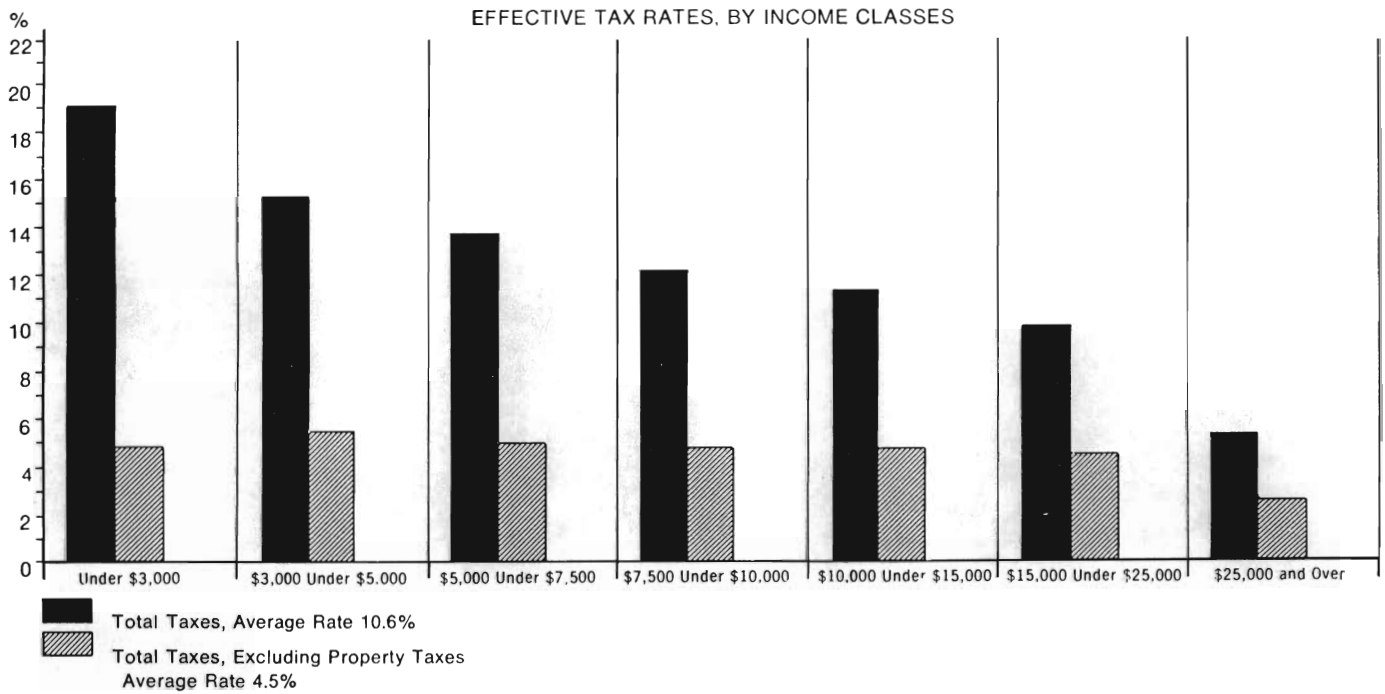
In Tables 20 through 22, we attempt a partial look at the combined federal-state-local burden on New

Jersey residents. When consideration is given to the most progressive tax in the federal structure—the individual income tax—a different conclusion is reached about the distribution of tax burdens. Where the net burden of New Jersey taxation is regressive, the burden of state-local taxation combined with the income tax is distributed roughly proportionally. Nevertheless, it should be noted that if other federal taxes were considered, particularly social security payroll taxes, they would tend to distribute the tax burden in a less progressive or more regressive manner.

**TABLE 18**  
**State of New Jersey**  
**EFFECTIVE TAX RATES, BY INCOME CLASSES**

Type of Tax	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
Property Taxes							
Average Rate 6.1% .....	14.2%	9.6%	8.5%	7.2%	6.4%	5.4%	2.9%
Corporation Business Taxes							
Average Rate .4% .....	.4%	.4%	.4%	.3%	.3%	.4%	.8%
Sales and Use Tax							
Average Rate 1.1% .....	1.0%	1.4%	1.1%	1.2%	1.2%	1.2%	.6%
Public Utility Taxes							
Average Rate .6% .....	1.0%	.9%	.9%	.7%	.7%	.6%	.3%
Motor Fuels Taxes							
Average Rate .7% .....	.5%	.7%	.9%	.8%	.8%	.5%	.2%
Motor Vehicle Fees							
Average Rate .5% .....	.5%	.5%	.6%	.6%	.6%	.5%	.2%
Insurance Taxes							
Average Rate .1% .....	.1%	.1%	.1%	.1%	.1%	.1%	.1%
Tobacco Taxes							
Average Rate .5% .....	1.0%	1.1%	.8%	.6%	.5%	.3%	.1%
Alcoholic Beverage Taxes							
Average Rate .2% .....	.2%	.2%	.1%	.2%	.2%	.2%	.1%
Spectator Admissions Taxes							
Average Rate .1% .....	.0%	.1%	.1%	.1%	.1%	.1%	.0%
Inheritance-Estate Taxes							
Average Rate .2% .....	.0%	.0%	.0%	.0%	.1%	.5%	.1%
All Other Taxes							
Average Rate .1% .....	.1%	.2%	.2%	.1%	.1%	.1%	.1%
Total Taxes							
Average Rate 10.6% .....	19.1%	15.2%	13.7%	12.1%	11.3%	9.9%	5.4%
Total Taxes Excluding Property Taxes							
Average Rate 4.5% .....	4.9%	5.6%	5.1%	4.9%	4.8%	4.5%	2.6%

Chart 1-4



**TABLE 19**  
**State of New Jersey**  
**ESTIMATED MEAN TAX PAYMENTS,**  
**BY INCOME CLASS**

Type of Tax	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
Property Taxes							
\$710 .....	\$ 304	\$ 371	\$ 550	\$ 628	\$ 777	\$ 988	\$1,568
Corporation Business Taxes							
\$48 .....	9	15	25	27	42	67	439
Sales and Use Tax							
\$129 .....	21	54	69	107	149	215	333
Public Utility Taxes							
\$73 .....	21	34	55	63	84	106	143
Motor Fuels Taxes							
\$76 .....	11	28	56	74	99	98	100
Motor Vehicle Fees							
\$58 .....	10	21	39	53	70	85	133
Insurance Taxes							
\$15 .....	3	5	9	12	18	27	33
Tobacco Taxes							
\$53 .....	21	42	52	52	57	60	67
Alcoholic Beverage Taxes							
\$19 .....	4	7	8	15	20	40	49
Spectator Admissions Taxes							
\$9 .....	1	3	5	8	12	16	17
Inheritance-Estate Taxes							
\$24 .....	—	1	3	2	18	95	62
Other Taxes							
\$14 .....	3	6	10	12	16	22	30
<b>Total Taxes \$1,228 .....</b>	<b>\$ 408</b>	<b>\$ 587</b>	<b>\$ 881</b>	<b>\$1,053</b>	<b>\$1,362</b>	<b>\$1,819</b>	<b>\$2,974</b>
<b>Total Taxes Excluding</b>							
<b>Property Taxes \$518 .....</b>	<b>\$ 104</b>	<b>\$ 216</b>	<b>\$ 331</b>	<b>\$ 425</b>	<b>\$ 585</b>	<b>\$ 831</b>	<b>\$1,406</b>

**TABLE 20\***  
**State of New Jersey**  
**ESTIMATED DISTRIBUTION OF TAXES PAID BY NEW JERSEY RESIDENTS,**  
**BY INCOME CLASS, IN AMOUNTS AND PERCENTAGES**

Type of Tax	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
(Millions of Dollars)							
Property Taxes \$1,708.1	\$38.2 2.2%	\$ 62.6 3.7%	\$232.1 13.6%	\$ 315.6 18.5%	\$ 538.4 31.5%	\$ 399.2 23.3%	\$ 124.9 7.3%
Corporation Business Taxes \$170.9	1.6 .9%	3.6 2.1%	13.5 7.9%	16.2 9.5%	37.0 21.7%	37.6 22.0%	61.6 36.0%
Sales and Use Tax** \$488.0	4.2 .9%	15.1 3.1%	46.1 9.4%	85.0 17.4%	161.2 33.0%	136.5 28.0%	39.4 8.1%
Public Utility Taxes \$163.5	2.6 1.6%	5.5 3.4%	22.0 13.5%	29.5 18.1%	53.7 33.0%	39.9 24.4%	10.4 6.1%
Motor Fuels Taxes \$189.4	1.5 .8%	5.1 2.7%	24.8 13.1%	29.1 20.6%	70.7 37.3%	40.6 21.4%	7.7 4.1%
Motor Vehicle Fees \$130.2	1.2 .9%	3.4 2.6%	15.4 11.9%	24.6 18.9%	44.4 34.2%	31.8 24.5%	9.2 7.1%
Insurance Taxes \$34.4	.3 .9%	.8 2.3%	3.7 10.8%	5.8 17.0%	11.2 32.7%	10.1 29.5%	2.3 6.7%
Tobacco Taxes \$117.9	2.6 2.2%	6.8 5.8%	20.5 17.4%	24.4 20.7%	36.4 30.9%	22.5 19.1%	4.6 3.9%
Alcoholic Beverage Taxes \$42.5	.5 1.2%	1.1 2.6%	3.3 7.8%	7.0 16.5%	12.5 29.4%	14.8 34.8%	3.4 8.0%
Spectator Admissions Taxes \$21.1	.1 .4%	.5 2.6%	1.8 8.7%	3.8 17.8%	7.6 36.1%	6.0 28.6%	1.2 5.7%
Inheritance-Estate Taxes \$66.6	—	.3 .4%	1.5 2.3%	1.1 1.6%	14.2 21.3%	44.2 66.4%	5.4 8.1%
Other Taxes \$31.9	.4 1.4%	1.0 3.2%	4.1 12.7%	5.7 17.9%	10.2 32.1%	8.3 26.0%	2.1 6.7%
Federal Individual Income Taxes \$3,766.9	6.4 .2%	59.2 1.6%	270.1 7.2%	447.3 11.9%	1,001.2 26.6%	1,086.1 28.8%	896.2 23.8%
State-Local Taxes Plus Federal Individual Income Taxes \$6,931.4	\$59.6 .9%	\$165.0 2.4%	\$658.2 9.5%	\$1,005.1 14.5%	\$1,998.7 28.8%	\$1,877.6 27.1%	\$1,168.4 16.9%
Total State-Local Taxes Plus Federal Individual Income Taxes Less Property Taxes \$5,223.3	\$21.4 .4%	\$102.4 2.0%	\$426.1 8.2%	\$ 689.5 13.2%	\$1,460.3 28.0%	\$1,478.4 28.3%	\$1,043.5 20.0%

\* Federal Individual Income Taxes are Included With the Total Burden of State-Local Taxes.

\*\* Using Fiscal 1971 Sales Tax Yield and Fiscal 1970 Yield for Other Major Taxes.

**TABLE 21\***  
**State of New Jersey**  
**EFFECTIVE TAX RATES, BY INCOME CLASSES**

Type of Tax	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
Property Taxes							
Average Rate 6.6% .....	14.6%	10.0%	9.1%	7.7%	7.0%	5.8%	3.3%
Corporation Business Taxes							
Average Rate .7% .....	.6%	.6%	.5%	.4%	.5%	.5%	1.6%
Sales and Use Tax**							
Average Rate 1.9% .....	1.6%	2.4%	1.8%	2.1%	2.1%	2.0%	1.0%
Public Utility Taxes							
Average Rate .6% .....	1.0%	.9%	.9%	.7%	.7%	.6%	.3%
Motor Fuels Taxes							
Average Rate .7% .....	.6%	.8%	1.0%	1.0%	.9%	.6%	.2%
Motor Vehicles Fees							
Average Rate .5% .....	.5%	.5%	.6%	.6%	.6%	.5%	.2%
Insurance Taxes							
Average Rate .1% .....	.1%	.1%	.1%	.1%	.1%	.1%	.1%
Tobacco Taxes							
Average Rate .5% .....	1.0%	1.1%	.8%	.6%	.5%	.3%	.1%
Alcoholic Beverage Taxes							
Average Rate .2% .....	.2%	.2%	.1%	.2%	.2%	.2%	.1%
Spectator Admissions Taxes							
Average Rate .1% .....	.0%	.1%	.1%	.1%	.1%	.1%	.0%
Inheritance-Estate Taxes							
Average Rate .3% .....	.0%	.0%	.0%	.0%	.2%	.6%	.1%
All Other Taxes							
Average Rate .1% .....	.1%	.2%	.2%	.1%	.1%	.1%	.1%
Federal Individual Income Taxes 14.5% .....	2.4%	9.4%	10.6%	10.9%	13.0%	15.8%	23.6%
State-Local Taxes Plus Federal Individual Income Taxes 26.7% .....	22.7%	26.3%	25.8%	24.5%	25.9%	27.3%	30.8%
Total State-Local Taxes Plus Federal Individual Income Taxes Less Property Taxes 20.1% .....	8.1%	16.3%	16.7%	16.8%	19.0%	21.5%	27.5%

\* Federal Individual Income Taxes are Included With the Total Burden of State-Local Taxes.

\*\* Using Fiscal 1971 Sales Tax Yield and Fiscal 1970 Yield for Other Major Taxes.

**TABLE 22\***  
**State of New Jersey**  
**ESTIMATED MEAN TAX PAYMENTS,**  
**BY INCOME CLASS**

Type of Tax	Under \$3,000	\$3,000 Under \$5,000	\$5,000 Under \$7,500	\$7,500 Under \$10,000	\$10,000 Under \$15,000	\$15,000 Under \$25,000	\$25,000 and Over
Property Taxes \$767 .....	\$312	\$ 385	\$ 585	\$ 675	\$ 845	\$1,066	\$ 1,808
Corporation Business Taxes \$77	13	22	34	35	58	100	891
Sales and Use Tax** \$219 .....	34	93	116	182	253	365	570
Public Utility Taxes \$73 .....	21	34	55	63	84	107	151
Motor Fuels Taxes \$85 .....	12	31	63	84	111	108	111
Motor Vehicle Fees \$58 .....	10	21	39	53	70	85	133
Insurance Taxes \$15 .....	3	5	9	12	18	27	33
Tobacco Taxes \$53 .....	21	42	52	52	57	69	67
Alcoholic Beverage Taxes \$19 ...	4	7	8	15	20	40	49
Spectator Admissions Taxes \$9 .	1	3	5	8	12	16	17
Inheritance-Estate Taxes \$30 ...	—	2	4	2	22	118	78
Other Taxes \$14 .....	3	6	10	12	16	22	30
Federal Individual Income Taxes \$1,690 .....	52	364	681	956	1,571	2,901	12,970
State-Local Taxes Plus Federal Individual Income Taxes \$3,110 .....	\$486	\$1,014	\$1,660	\$2,148	\$3,136	\$5,015	\$16,909
Total State-Local Taxes Plus Federal Individual Income Taxes Less Property Taxes \$2,344 ..	\$174	\$ 630	\$1,074	\$1,474	\$2,291	\$3,949	\$15,102

\* Federal Individual Income Taxes are Included with the Total Burden of State-Local Taxes.

\*\* Using Fiscal 1971 Sales Tax Yield and Fiscal 1970 Yield for Other Major Taxes.

**It is clear that the present state and local tax system in New Jersey has two principal deficiencies: first, its income elasticity is inadequate as compared with the income elasticity of expenditures, and this has caused recurrent state fiscal crises demanding the imposition of new and additional taxes; and, secondly, the system distributes the total state and**

**local tax burden in a very regressive manner. The latter is due primarily to an excessive use of the property tax and its impact upon the middle and lower income groups as part of their housing cost.**

**The correction of these two basic deficiencies is the key problem to be resolved by the Committee's further recommendations.**