



Home | Newsroom | Media | Administration | NJ's Priorities | Contact Us

Press Releases | Public Addresses | Executive Orders | Press Kit | Reports

Home > Newsroom > Press Releases > 2010 > In Case You Missed It: Manhattan Institute – "...New Jersey, by adopting a similar [cap on property taxes], could significantly restrain tax growth..."

In Case You Missed It: Manhattan Institute – "...New Jersey, by adopting a similar [cap on property taxes], could significantly restrain tax growth..."

Monday, May 24, 2010 • Tags: [Property Taxes](#)

Josh Barro, Walter B. Wriston Fellow, Manhattan Institute for Policy Research
Civic Report - No. 62 May 2010
This report was cosponsored by the Common Sense Institute of New Jersey

Executive Summary

New Jersey is considering a tax reform called "Cap 2.5," under which a municipality's tax levy on existing property could not grow more than 2.5 percent in any year, unless its voters pass a referendum allowing a greater increase. This reform is similar to Massachusetts's Proposition 2.5, which that state adopted in 1980.

...

Overall, Proposition 2.5 has succeeded in restraining growth of property-tax collections, total tax collections, and per-pupil education spending in Massachusetts. These fiscal successes have not come at the expense of the state's educational outcomes, which are the nation's best, consistently outperforming-or at least tying-New Jersey's results on national school exams.

...

Massachusetts's experience suggests that New Jersey, by adopting a similar reform, could significantly restrain tax growth without hurting educational outcomes. The Bay State has shown that it is not necessary to be the national leader in school spending to be the national leader in school outcomes.

The findings of the report are:

- In Massachusetts, Proposition 2.5 has been effective in controlling growth in property taxes. Real-dollar property-tax growth from 1980 to 2007 was just 22 percent in Massachusetts. It was 68 percent nationwide and 102 percent in New Jersey.
- Overall growth in state and local taxes was 58 percent in Massachusetts, while it was 70 percent nationally and 108 percent in New Jersey. As a result, New Jersey went from being the state with the tenth-highest state and local tax burden to being the state with the highest burden. In the same period, Massachusetts fell from second to twenty-third.

...

New Jersey, as well, has a property-tax cap, enacted in 2007, which limits growth in local tax levies to 4 percent per year. However, unlike Massachusetts's cap, New Jersey's is studded with exceptions that make it an ineffective bar to tax and spending growth. For example, the cap permits exceptions for growth in employee health-care and pension costs, which have been rising rapidly. The proposed Cap 2.5 would not allow these exceptions.

Proposition 2.5 and Its Effects on Taxes and Spending

Proposition 2.5 has had marked effects on property taxes in Massachusetts. From 1980 to 2007 (the most recent year for which Census of Local Governments data are available), property taxes per capita rose 22 percent in Massachusetts, while they rose 102 percent in New Jersey and 62 percent in the country as a whole (all figures based on constant 2007 dollars). In real dollar terms, per-capita property taxes rose \$1,257 in New Jersey, \$499 in the country as a whole, and just \$303 in Massachusetts.

Through 1981, property-tax collections per capita were higher in Massachusetts than New Jersey. But as of 2007, New Jersey collected 46 percent more per capita in property tax than Massachusetts. New Jersey is now home to seven of the ten counties in the country with the highest median property tax on owner-occupied homes.

For the typical homeowner, the property-tax gap between Massachusetts and New Jersey is massive. As of 2007, the median owner-occupied home in Massachusetts's most taxed county-Middlesex, a suburban county northwest of Boston-was subject to a property tax of \$4,271, which is less than the median tax bill in sixteen of New Jersey's twenty-one counties. Hunterdon, the most taxed county in the Garden State, had a median bill nearly twice as high: \$8,347.[1]

...

Effect on overall tax levels

From 1980 to 2007, state and local tax collections per capita grew 58 percent in Massachusetts in real dollars, while growing 70 percent nationally and 108 percent in New Jersey. This means that Massachusetts's faster than normal

Stay Connected with Social Media



Stay Connected with Email Alerts

LIKE THIS PAGE? SHARE IT WITH YOUR FRIENDS.



growth in revenues from other taxes only partly compensated for the slower growth of its property-tax revenues.

The difference in overall tax growth allowed New Jersey to leapfrog Massachusetts in tax collections per capita. In 1980, New Jersey's tax collections per capita were 9 percent lower than Massachusetts's. By 2007, they were 21 percent higher. Between 1980 and 2007, New Jersey rose from tenth to first in the Tax Foundation's ranking of state and local tax burdens as a share of income, while Massachusetts fell from second to twenty-third.[2]

...

Educational Performance in Massachusetts and New Jersey

Per-pupil education spending in Massachusetts exceeds the national average but is significantly lower than it is in New Jersey and other states at the top of the spending ladder. However, Massachusetts is managing to be the clear top performer on the National Assessment of Educational Progress (NAEP)-at only a moderately high cost.

Since the inception of the NAEP exams in 1992, Massachusetts has consistently tied or outscored New Jersey, and the gap between the two has grown over time. On the 2009 exam, Massachusetts soundly beat New Jersey in grade four reading and math and grade eight math; Massachusetts also outperformed New Jersey in grade eight reading, though by a statistically insignificant margin.

...

Conclusion

Proposition 2.5 appears to have held down property taxes as well as overall taxation in Massachusetts, despite above-normal increases in state aid to localities since the enactment of the property-tax cap. As a result, per-pupil education spending is significantly lower in Massachusetts than in New Jersey.

However, Massachusetts's students consistently outperform New Jersey's on the NAEP exams. Massachusetts's advantage persists within most demographic groups. All kinds of school districts in Massachusetts have a lower cost model, even those with high percentages of students who are learning English or who come from low-income families, and these students still outperform their New Jersey counterparts on the NAEP.

...

[View entire report here.](#)

###

Press Contact
Michael Drewniak
609-777-2600



Statewide: [NJ Home](#) | [Services A to Z](#) | [Departments/Agencies](#) | [FAQs](#)
Office of the Governor: [Home](#) | [Newsroom](#) | [Media](#) | [Administration](#) | [NJ's Priorities](#) | [Contact Us](#)

Copyright © State of New Jersey, 1996-2012
Office of the Governor
PO Box 001
Trenton, NJ 08625
609-292-6000

[Contact Us](#) | [Privacy Notice](#) | [Legal Statement & Disclaimers](#) | [Accessibility Statement](#) | 