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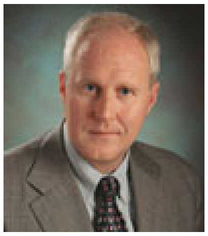
Business Taxes and Budget Keep Growing in New Jersey



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Within just 13 days of taking office in January 2002, the McGreevey administration announced a sudden $2.9 billion shortfall in the 2002 state budget, and began developing unprecedented corporate business tax (CBT) legislation for fiscal 2002 and later fiscal years. The administration cited declines in tax collections as the primary reason. The ensuing legislative package was thus designed to increase state tax revenues. However, it was also designed to support a $500 million increase in state spending for fiscal 2003 compared to fiscal 2002.

Enacted as the Business Tax Reform Act of 2002, the administration's legislation introduced the following unheard of taxes in New Jersey: an "alternative minimum assessment," an imposition of corporate income taxes on state corporations without net income; a head tax of $150 per professional per year on all of the learned professionals practicing in New Jersey; a withholding income tax on all New Jersey partnerships having out-of-state partners.

Many existing taxes were substantially increased, for instance: the realty transfer tax; state death taxes; corporate taxes on S corporations (except for the smallest). Taxes were also increased in some truly creative ways, for instance: corporate business taxes went up by means of many new computational methodologies; now profitable corporations were denied deductions for prior tax period operating losses; accelerated tax depreciation deductions were disallowed.

The suddenness of a midstream 2002 budget shortfall, the breadth and depth of the new taxes, their retroactive enactment in midst of an economic downturn, and, last but not least, the administration's proposed budget of $26.3 billion for fiscal 2005, demonstrate how low a priority state spending constraint is for the administration. Moreover, these facts demonstrate the administration's low priority for private sector job growth. The Center for Urban Policy Research at Rutgers University concluded in an April 2003 report that the 2002 CBT increases alone should result in a decrease of 13,500 New Jersey jobs from 2003 to 2007. As with spending constraints, private sector job growth is a low administration priority.

The administration's recently released budget for fiscal 2005 proposes more New Jersey tax increases. The proposals would further disallow once unprofitable corporations from deducting their prior period losses; the realty transfer tax is increased again; a novel series of taxes is proposed on the chemical, refining and many other heavy industries hanging on in New Jersey; a novel 1 percent luxury tax is imposed on home sales of more than $1 million; a novel franchise fee on wireless (only) telephone services; a $.45 cents per pack increase in the cigarette tax; etc. The taxes are too numerous to count.

At the same time, the administration should be given credit for legislative and administrative tax enforcement initiatives. Yet, in their zeal, they did not pause to consider that many businesses and their owners in New Jersey, large and small, know by reference to their own incomes, budgets and revenues that taxes in New Jersey had been too high even before the 2002 CBT changes. Now, they are materially higher than then. Also, one may be curious about what other states have been doing since Jan. 1, 2002. The Washington, D.C. based Council on State Taxation reported in March that the McGreevey administration is unique in that, "No state has moved to follow New Jersey on any of the major changes it adopted during the 2002 legislative session."

The 2002 CBT increases, as well as the proposed fiscal 2005 tax increases, should be viewed from a rational and sober perspective: the current strong tax collections, as the economy recovers, and the fact that the proposed state budget of $26.3 billion is almost $10 billion more than the size of the fiscal 1998 state budget of $16.4 billion. If only the New Jersey private sector could enjoy such increases in their budgets relatively speaking. Imagine the prosperity.

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