OPINION

Time to debate replacing the property tax? |Opinion

Carl Golden Published 5:12 a.m. ET June 7, 2019

Tucked away in “Path to Progress,” the report and brainchild of Senate President Stephen Sweeney to fundamentally change the state’s revenue producing and spending structure, is a carefully worded idea that emerges from time to time in discussions of New Jersey’s record-breaking property tax.

In the section entitled “State and Local Government Tax Structure,” the following paragraph appears:

“Permit a revenue neutral or multi-county/regional 1 per cent sales tax option paid partly by out-of-staters to be used to potentially cut property taxes by more than $1 billion if all counties participate.”

There are more hedges in this sentence than the shrubbery surrounding the lawns at Drumthwacket --“permit” or “revenue neutral” or “potentially cut” or “if all counties participate” and lastly, “paid partly by out-of-staters.”

The recommendation has been largely overlooked, overshadowed by other more controversial suggestions, particularly those involving dramatic revisions in the public pension and benefits system.

A more definitive reading, though, suggests it is a small and gingerly step toward opening a debate on permitting local governments -- county or municipal -- the option of implementing a sales tax as an alternative to relying exclusively on property assessments.

While the Path to Progress report refers only to a sales tax, including an income tax would be a logical extension. Shifting the burden from one based on property values to one based on income or sales is not a new idea, but -- aside from perfunctory discussion -- it has never gained significant traction in the Legislature. Nor, for that matter, has a governor thrown the weight of the office behind it.

Those who support a more in-depth study argue that the value of a property is neither an accurate or fair indicator of individual economic status or ability to pay. Income, they contend, is.

Legislators have always shied away from extending additional taxing power to local governments, fearful that it will become an additional tax rather than functioning as a substitute for what many believe is a regressive system that falls disproportionately on middle and low-income families, dampens the real estate market, and discourages business development and re-location.

Strict controls, perhaps via Constitutional amendment, could address those concerns by requiring that property taxes be reduced by a specific percentage before an income tax could be implemented.

The idea that possibly cutting one’s property tax bill by $3,000, say, in return for paying $2,000 in income tax is an immensely appealing one.

According to supporters of alternative revenue producers, authorizing a municipal tax on income recognizes that the property levy will continue to grow year to year and for many -- particularly retirees -- has already reached a breaking point.

Income is an accurate portrayal of individual or family circumstance and subjecting it to a tax is fairer, more even-handed and -- most importantly -- will lift the burden on property owners.

The potential for a significant reduction in property taxes and replacing the revenue with an income levy is very real, supporters argue, and should be subjected to a comprehensive study by an objective, non-government entity. They point out there’s never been a full-throated legislative debate on the issue.

Seventeen states permit a local income tax and, of the 17, six permit a limited form, including New Jersey -- the payroll tax imposed in Newark and Jersey City.

With the average annual property tax bill inching closer to $8,800 -- highest in the nation -- it would seem logical and prudent to look to other sources of tax revenue to support county, municipal and school district operations.

Property taxes has consistently been at the top of issues most troubling to New Jerseyans, but Legislatures and successive chief executives have always turned to increases in state aid or tax rebate programs even though the latter have been scaled back so greatly over the years that only a handful of taxpayers are eligible.

The 2 percent cap on property tax increases has restrained the rate of growth but slowing annual increases, while helpful, has neither reversed the trend nor reduced the burden. In a growing number of municipalities, the annual property tax bill is well in excess of five figures, for example.

Some 1,200 government entities -- 565 municipalities, 21 counties and 600 school districts -- rely on property taxes for everything from crayons for kindergarteners to weaponry for police departments.

Municipal consolidation has never taken hold and likely never will to any serious extent, and shared service agreements -- while a growing trend -- have not resulted in appreciable tax savings.

Gov. Phil Murphy has been largely neutral on the Path to Progress report, saying only that he'd be willing to discuss it at greater length at some point.

Sweeney, meanwhile, has been barnstorming the state, touting the recommendations and warning darkly that the state is in a fiscal death spiral that can only be arrested by the kind of reforms and cost savings proposed in the study.

Whether the local sales tax suggestion or anything similar will spark a serious legislative response is, given history, problematic.

With hundreds of billions of dollars at stake, the public pension and benefits reforms have understandably drawn the lion's share of attention and will continue to dominate.

Public employee unions see Sweeney's Path to Progress as a Path to Purgatory for them, a place where their members will pay more for less coverage. Murphy has consistently taken up the union's cause and has ruled out the kind of broad revisions proposed by Sweeney.

In the current atmosphere of distrust and bad blood between the governor's office and the legislative leadership, any step toward granting additional taxing power to local governments is doubtful.

In all likelihood, the property tax system will remain, and its burden will increase. Solutions will be short-lived and government will continue to work at the margins with cosmetic fixes presented as progress.

Carl Golden is a senior contributing analyst with the William J. Hughes Center for Public Policy at Stockton University.