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Give Us a Break – N.J. Tax Breaks Total at Least \$23.5 Billion, According to Stockton’s Public Policy Center

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As the governor and the state legislature embark upon New Jersey’s budget process, Stockton University’s Hughes Center unveils its analysis about the cost of New Jersey’s tax breaks. A partial estimate of the cost of New Jersey’s many tax breaks totals at least \$23.5 billion for fiscal year 2017, a figure that equals roughly two-thirds of the state’s annual budget of \$34.8 billion, according to a policy brief published on January 10, 2017 by the William J. Hughes Center for Public Policy at Stockton University.

Since 2010, an annual report on tax breaks, known as “expenditures,” has been a required part of the governor’s budget message. The intent of the report is to provide state legislators and the governor with the empirical information necessary to assess the continuing value of these exceptions to the tax code. “The purpose of this policy brief is to assist decision makers and the citizens of New Jersey in reflecting upon the role and significance of tax expenditures in the overall fiscal climate of the state,” said authors Daniel Mallinson and David Carr, both professors in Stockton University’s Political Science program. Dr. Carr also serves as director of Research and Policy Analysis at the Hughes Center. The 2016 Tax Expenditure Report identifies 263 “tax breaks.” The N.J. Department of the Treasury projects such expenditures will equal \$23.5 billion. This figure only includes estimates for 51 percent of the authorized tax expenditures – estimates for the other 49 percent are unavailable in the 2016 report.

Sales and use tax provisions account for the largest tax expenditure category at over \$9 billion, a figure that is likely much larger, since the most recent report includes estimates for only 27 percent of the items in this category. In addition, the total dollar value of tax expenditures has been increasing since FY 2011. If projections for FY 2017 are included, the increase is 3.8 percent, or \$2.1 billion.

“Most governments have provisions in their tax codes to provide preferential treatment to reward those individuals, activities, or organizations that it believes deserve special treatment, or more broadly, as an indirect way of achieving public purposes,” the study noted.

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They are intended to attract or retain key businesses, support non-profits that may be accomplishing public purposes, and to encourage certain types of behavior, either by individuals or organizations. They also support groups of individuals who are seen as deserving, such as senior citizens, veterans and the disabled. Some aim to correct inequities in the overall tax system, for instance by exempting certain products from the sales tax to ease the disproportionate burden on lower-income earners.

Yet, these often-popular tax preferences are not without issues. Aside from the sheer size of New Jersey's tax expenditures, Drs. Mallinson and Carr noted:

- Despite the legislative intent of requiring the report, the state does not appear to have a process for regularly re-evaluating tax expenditures and there are no "sunset" provisions that would cause any to expire, as is the practice in some other states.
- There is little evidence that New Jersey regularly reviews the eligibility of those organizations that have been granted tax-exempt status. In contrast, "between 2011 and August 2016, the Internal Revenue Service has revoked the federal tax exempt status of 18,865 New Jersey tax-exempt organizations, of which 12,205 were exempt under section 501(C)(3) of the Internal Revenue Code."
- The dollar amounts of the tax expenditures are significant. Counting the value of only 51 percent of the authorized tax expenditures, the estimated annual value of **each** main tax expenditure category – income tax (\$8.6 billion), sales and use tax (\$9.08 billion), and corporation business tax (\$4.7 billion) exceeds the annual value of all state direct expenditures, with the exception of K-12 education (\$13.39 billion).
- Once an eligibility criterion is established, the state cannot directly control how many individuals, organizations, or even purchases will qualify. Consequently, the rate of growth in the value of tax expenditures is difficult to predict.
- Each tax expenditure that grants preference to a group, organization, or purpose has the effect of shifting the burden of taxation to others.

Some examples from the most recent report:

- \$3.2 billion in income tax credits for taxes paid to other jurisdictions;
- Tax exemptions including: \$948.6 million for clothing and footwear; and \$80.7 million for disposable household paper products;
- Tax exclusions including: \$2.87 billion for purchases for resale; \$234 million for eggs, fish, meat and poultry; \$80.1 million for garbage removal and sewer services; \$4 million for massage therapy services and \$13 million for business retention and relocation assistance grants.

All estimates from the state report are listed in the complete policy brief at: Stockton.edu/hughescenter.

The Hughes Center policy brief, the second in a series, is designed “to educate the public and alert New Jersey policy makers, both in Washington and Trenton. The briefs are not intended to be a comprehensive research project. Rather, they provide a broad overview of an issue, often based on information or reports that already exist, but which may have gone unnoticed,” the authors said.

“As debates continue in the Assembly and the Senate over issues such as pensions and health benefits for public employees, and the Transportation Trust Fund, we should keep in mind that New Jersey, like other states, has chosen to provide varied types of preferential tax treatments. A review of these foregone revenues could be part of the solution for critical issues facing the state, in some cases offering opportunities to mitigate the scope of proposed tax increases in other areas,” they added.

About the Hughes Center

The William J. Hughes Center for Public Policy (www.stockton.edu/hughescenter) at Stockton University serves as a catalyst for research, analysis and innovative policy solutions on the economic, social and cultural issues facing New Jersey, and promotes the civic life of New Jersey through engagement, education and research. The center is named for William J. Hughes, whose distinguished career includes service in the U.S. House of Representatives, Ambassador to Panama and as a Distinguished Visiting Professor at Stockton. The Hughes Center can be found at <https://www.facebook.com/StocktonHughesCenter> and can be followed on Twitter @hughescenter.