



STATE: Time to replace the property tax?

By Lauren Otis, Staff Writer

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New Jersey's property tax burden is the subject of seemingly never-ending resident frustration and anger.

So is the state ready for a radical structural change in its property tax system for funding schools and municipalities?

The issue has been brought to the fore by independent gubernatorial candidate Chris Daggett, who has proposed a restructuring of the state's property tax system as a central part of his candidacy.

Observers from several of the state's public policy groups say they welcome Mr. Daggett's decision to spotlight the issue and credit him for presenting a specific proposal, in contrast to vague talk of rebates and municipal consolidation from Gov. Jon Corzine and Republican challenger Chris Christie. But they also see significant flaws in the Daggett plan.

"I think it is excellent to raise the issue," said Mary Forsberg, interim director of New Jersey Policy Perspective. "I have lived in New Jersey for 22 years, and property taxes have been a major source of irritation all the time, every year."

Ms. Forsberg is a member of the New Jersey Tax & Fiscal Policy Study Commission.

There are a number of significant sticking points to Mr. Daggett's proposal, she said. In it, Mr. Daggett calls for a 25 percent cut in property taxes funded by \$4 billion raised through a 1 percent increase in the state sales tax as well as extending sales taxes to many services. The maximum individual property tax cut would be \$2,500 with property owners foregoing it if their home municipality fails to rein in budgetary increases at or below 3 percent, Mr. Daggett has proposed.

"I think that his numbers for the amount of money he could raise are optimistic," said Ms. Forsberg, who wrote a report on New Jersey's sales tax several years ago.

Ms. Forsberg said she came up with only \$2.9 billion in new income from the sales tax increase and expansion — including taxing food, clothing and utilities — rather than Mr. Daggett's \$4 billion.

"He is saying we are going to expand it (the sales tax) all over the place and get \$4 billion. My first question is, is that a realistic number," said Richard F. Keevey, director of the Policy Research Institute for the Region with Princeton University's Woodrow Wilson School.

Even if Mr. Daggett's numbers are optimistic, "he's the only one who's kind of thrown out something" regarding reducing property taxes of all the candidates for governor, Mr. Keevey said.

"I think he's taking an interesting approach by saying property tax is the most egregious tax in the state, and here is my proposal for reducing it," he said.

John Weingart, associate director of Rutgers' Eagleton Institute of Politics, said most campaign proposals fall back on calls to lower the cost of government, but Mr. Daggett is seeking a redistribution of the way municipalities and the state raise taxes. This is a worthwhile effort because of all the negative impacts of ever-increasing property taxes — from forcing people on fixed incomes to sell their homes and move when they don't want to to forcing municipalities to make unwise land use decisions regarding development because they need more ratables, Mr. Weingart said.

"What is exciting about Chris Daggett's proposal is it's a proposal. It is something to talk about," Mr. Weingart said.

Although Mr. Daggett's proposal is an important development, he is not proposing as radical a change to the state's property tax system as some state's have enacted, notably Michigan and Vermont, Mr. Keevey said.

In 1993, the Michigan state Legislature did away with property tax funding of local schools, substituting state funding from increased sales and cigarette taxes and new statewide property and real estate conveyance taxes. In 1998, the Vermont Legislature replaced local school district property taxes with a statewide tax on property or income.

Ms. Forsberg said while the issue of high property taxes is a sore one for New Jerseyans, the problem is compounded by a lack of understanding of the issue of taxation by residents.

"One of the things that makes New Jersey different from other states is we don't allow local taxes," she said.

She said in Pennsylvania, for instance, a majority of towns have municipal income taxes dedicated to schools, and there is taxation on the county level, too.

As a result, in New Jersey property taxes are the only taxes enabling localities in the state to raise funds, Ms. Forsberg said. While much is often made of how high New Jersey property taxes are compared to other states, such as Pennsylvania, a better comparison would be between New Jersey property taxes and the sum of other states' property, local sales and other taxes combined, she said.

Because the issue of property taxes here is somewhat misunderstood, it might be difficult to propose radical property tax reform in New Jersey such as other states have enacted, Ms. Forsberg said.

"As much as people talk about property taxes, we honestly don't know that much about them," she said.

She also questioned the ability of a proposal calling for taxing professional services, including legal services — as Mr. Daggett's does — to pass the

lawyer-packed state Legislature.

"I think it's pretty optimistic to think that the Legislature will go for that because many of them are lawyers," she said. Ms. Forsberg said Mr. Daggett has made a valiant effort with his proposal, however.

"I think it is excellent to raise the issue," she said, adding the more discussion on the subject, based on the facts, the better.

Mr. Keevey said Mr. Daggett's proposal could be appealing to specific voting blocks, including financially strapped middle-class home owners and seniors on fixed incomes, who are finding it more difficult to remain in their homes as property taxes escalate.

Mr. Weingart said the next governor is going to face a very difficult fiscal picture. He likened the property tax debate in New Jersey to the national debate over health care reform. Although nobody defends the current system, and everybody wants change, "the specifics of what that means ties up everyone in knots."

Mr. Weingart said Mr. Daggett's property tax proposal had been a factor in elevating his stature in the gubernatorial race.

"The combination of his proposal and his performance in the debate and his endorsement by the Star-Ledger has made him much more a factor in this race," Mr. Weingart.

Even so, he said the possibility Mr. Daggett might prevail in the election "extremely unlikely."

lotis@centraljersey.com 

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