



Property tax, not income tax, in N.J.'s real problem

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By **Star-Ledger Guest Columnist**

By *Mark J. Magyar*

Gov. Chris Christie gripped the lectern and his voice rose as he described the dire challenge that led him to call for a **10 percent cut in state income taxes.**

"Make no mistake — we are in a competition," Christie warned. "A competition for jobs — among countries, yes, but also among states. In the last decade, two-thirds of all companies which moved jobs to a new location did not move to other countries — they moved from one state to another."

Christie is right: New Jersey is in a cutthroat competition for both jobs and people that will determine our prosperity.

It's not just the choices CEOs make when they decide whether to build a factory here or in North Carolina.

It's the decisions Wall Street traders make when they decide between Madison and Greenwich. It's the decisions that working families make when they decide whether to move to Pennsylvania, that retirees make when they decide whether to move to Florida, and new graduates make when they decide whether to launch their start-up in New Jersey.

PICK YOUR POISON

Comparing New Jersey taxes with other states



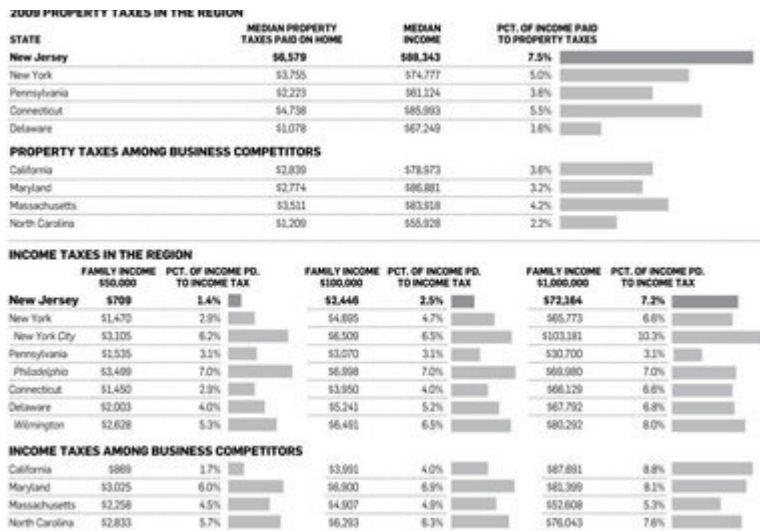
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Tony Kurdzuk/The Star-Ledger

Governor Chris Christie delivers his State of the State address in the Assembly chamber at the Statehouse. Trenton, NJ 1/17/12 (Tony Kurdzuk/The Star-Ledger)

Gov. Christie State of the State Address 1-17-2012 gallery (48 photos)

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Source: Property tax data for 2009 is from the Tax Foundation. Income tax rates and standard deductions drawn from the Tax Foundation and from various state and city government tax division websites, then calculated for a family of four in the four income categories.

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By any measure, it's a competition we're losing, whether you go by our loss of pharmaceutical market share to California, by our drop from first to third place in average income behind Connecticut and Massachusetts, or our persistent ranking atop the loser list for out-migration in reports by interstate moving companies.

But it isn't the income tax that makes New Jersey uncompetitive. It's the property tax. And if there's a billion dollars to spare for tax cuts — or, better still, the political courage needed to undertake a fundamental restructuring of our tax system — there's no question which tax

should be cut.

Just look at the numbers: New Jersey's \$7,758 average property tax bill ranks first in the nation. Our median property tax bill ate up 7.5 percent of household income in 2009. In comparison, an average family of four pays just 2 percent of annual income in state income taxes. It's not even close.

Bergen County's average property tax bill is 40 percent higher than Connecticut's Fairfield County — an important factor when executives decide between Alpine and Greenwich.

Sussex County residents moving to Pennsylvania's Pike County cut their average property tax bill in half — from \$5,948 to \$2,795. Every Pennsylvania county ranks at least \$1,000 below Burlington, Camden and Gloucester in average property taxes.

Households in "high-tax states," such as Massachusetts and California, pay \$3,000 and \$2,000 less in property taxes than New Jerseyans do, and the average property tax in North Carolina, home of the "Research Triangle," was even lower.

Relocation firms, business leaders and academics agree that high property taxes — and the housing costs they drive up — are the biggest barrier to persuading companies to come here. New Jersey businesses pay an estimated \$9 billion in property taxes — more than four times as much as they pay in corporate income taxes. Rutgers University economists James W. Hughes and Richard Seneca put reducing property taxes first on their list of policy priorities for retaining New Jersey's residents and businesses in their 2007 study, "Where Have All the Dollars Gone?"

Property taxes weigh more than income taxes when middle-income families and retirees decide whether to stay in New Jersey. That's not surprising, because the average New Jersey family pays some of the lowest income tax bills in the country — even though most New Jerseyans don't know it.

Lower than N.Y, P.A.

Pennsylvania's 3.07 percent flat tax sounds good to people who hear about New Jersey's 8.97 percent top rate. But New Jersey's income tax is highly progressive and takes only a small bite of modest incomes. So a New Jersey family of four making \$50,000 pays just \$709, while a similar family in Pennsylvania pays \$1,535 — and that tax bill jumps up to \$3,499 if you tack on Philadelphia's wage tax. Even a family making \$100,000 pays less in New Jersey. You won't hear flat-taxer Steve Lonegan — or Christie — talk about those numbers.

New Jersey's income tax on families making \$100,000 is lower than income taxes in California and New York. Shockingly, it is \$2,700 lower than Delaware's and \$3,800 lower than North Carolina's. Yet somehow those two states have reputations for low taxes.

So how did we get this reputation as a high income-tax state? Because it was once true.

When Christie ran for governor and pledged to cut income taxes, then-Gov. Jon Corzine had imposed a temporary surtax on incomes greater than \$500,000. But Christie vetoed Democratic legislation to reimpose the surtax, so income taxes on New Jersey millionaires are no longer out of line with other states. Millionaires pay less in New Jersey than in New York City, California and North Carolina, and about the same as in New York state, Connecticut and Delaware.

Tax havens such as Florida, Wyoming and Texas have no state income tax. But if someone wants to move there to take advantage, is it realistic to think Christie's 10 percent cut would keep them here?

Upside-Down N.J.

Cutting property taxes, on the other hand, would make a difference not only to low and middle-income families, but also to the corporate CEOs whose \$100,000 property taxes on estates in Bernardsville often top their income tax bills.

Past governors sometimes cut income, sales or corporate taxes because they felt they could not prevent mayors and school boards from raising property taxes if they did cut them.

But that's no longer true. The new 2 percent spending caps make it possible to cut property taxes — and to make those cuts stick.

The problem in New Jersey is that our tax system is upside down, and that makes us uncompetitive. Unlike other states, we collect more in property taxes (\$25.8 billion) than we do in income, sales and corporate taxes combined. Cutting the income tax won't change that.

So yes, Christie's right: We have a tax problem. But the way to fix that is to shift from the property tax to reliance on other major taxes.

The real problem with Christie's plan is that he marches in precisely the wrong direction.

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