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Regional Plan Association

Report Proposes Property Tax Reform Action Plan

*Recommends Use of New Sales Tax Revenue to Catalyze Reform by
Supporting Consolidation, Smart Growth Policies*

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TRENTON – Regional Plan Association (RPA), in partnership with the Lincoln Institute of Land Policy, today released a report proposing an action plan for property tax reform in New Jersey. The report, “Comprehensive Property Tax Reform for New Jersey,” calls for a three-step agenda: constrain costs through consolidation and state aid reform; improve land use efficiency by encouraging split rate taxation and aligning tax incentives with the State Plan; and explore use of the income tax to provide relief from the highest property taxes in the country. The report is the last in a series of three reports that set the context for reform, and the first to make specific recommendations for fixing the system.

“New Jersey has a rare opportunity to think creatively and act boldly to address structural problems that have long plagued the property tax system,” said Thomas K. Wright, RPA’s Executive Vice President. “There is no single solution that solves all the problems of New Jersey’s property tax system, which promotes sprawl, unfairly distributes the tax burden and is a symptom of government fragmentation and inefficiency. Comprehensive reform requires multiple solutions that address all of these problems.”

While comprehensive property tax reform is a long-term initiative, the report suggests using half of the funds generated by the sales tax increase to make critical short-term improvements.

- Specifically, the sales tax relief should come as municipal aid and be tied to reforms that promote greater government and economic efficiency. A portion of the revenue should be used to reward school districts and municipalities that reduce costs by consolidating units of government and sharing services. Revenue should also be used to lower property taxes for new construction for compact development in areas designated for growth by New Jersey’s State Development and Redevelopment Plan. This would create incentives for private development in places that make efficient use of land and public infrastructure.

“Rather than simply distribute rebate checks that do nothing to hold down future increases, the sales tax relief should come as municipal aid and be tied to reforms that promote greater government and economic efficiency,” Wright said. “Otherwise we’ll be right back in this situation next year and for the foreseeable future.”

The report then went on to recommend two longer term initiatives:

- A broader package of reforms should include a constitutional amendment to allow willing municipalities to tax land at a higher rate than buildings. Numerous studies and the experience of Pennsylvania indicates that this reform reduces sprawl, encourages economic growth and brings greater fairness to the property tax system.
- Income taxes should be considered as a source that could be increased to allow for further property tax reduction. As a share of personal income, individual income taxes in New Jersey are below the national average, far lower than in New York or Connecticut and only slightly higher than in Pennsylvania. However, the report warns that any shift to income taxes must consider impacts on the state’s fiscal health, changes in the rate structure and mechanisms that would maximize local incentives to control costs.

“The complexity of the property tax system makes it difficult to devise a single approach to solving its many problems,” Wright said. “This report identifies a number of actions that can be taken in both the short- and long-term that will combine to form a lasting solution to New Jersey’s record property taxes and their negative impact on the state’s development patterns.”

Regional Plan Association improves the quality of life and the economic competitiveness of the New York-New Jersey-Connecticut region through research, planning, and advocacy. For more than 80 years, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region’s continued growth. We anticipate the challenges the region will face in the years to come, and we mobilize the region’s civic, business, and government sectors to take action.

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