Commentary: N.J. should get a grip on tax breaks

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By Sharon Schulman

As we enter the season of forming the next New Jersey state budget, I would like to remind the governor and Legislature to reinvigorate a wise action they took just about this time seven years ago. A bill was signed into law that requires the state Treasury Department to issue an annual report of "tax expenditures" for the immediate past, present, and future years.

The term *tax expenditure* is a bit confusing. However, its impact is very important to sound public policy and fiscal planning. What we're talking about is selective tax relief, or preferential treatment. The everyday term would be "tax breaks," and they are quite common in many states and in the federal government. In New Jersey, most of these breaks affect the gross income tax, sales and use tax, and the corporate business tax collected.

Tax breaks are not particularly bad. In fact, they are implemented for a variety of good reasons that may include economic development and helping to stimulate job creation, new construction, and the housing market. Some encourage people to save for retirement, college, and health care. Still others provide support for deserving populations, such as veterans, the disabled, and senior citizens. There are also exemptions from sales taxes, such as on prescription drugs and in Urban Enterprise Zones, and nonprofit organizations enjoy tax-exempt status.

But there is a fiscal reality to these exemptions. According to a policy brief prepared by Dan Mallinson and David Carr, Stockton political science faculty members, "when New Jersey does not collect tax revenue it would otherwise be able to collect, the granting of special tax relief is the same as if it had expended the money."

There are so many of these state tax breaks that we virtually give away the equivalent of far more than two-thirds of the state's $34.8 billion budget. In many instances, the granting of these breaks - no matter how great the purpose - may shift the tax burden to other taxpayers.

These tax breaks were implemented over time for important reasons, and often have no sunset provision so they continue indefinitely. All the more reason to examine their impact, effectiveness, and necessity over time.

The most recent Tax Expenditure Report identifies 263 such expenditures in New Jersey and of those just 51 percent have estimated costs - totaling $23.5 billion for fiscal year 2017. Many of these are estimates by the Treasury Department because there is no current mechanism for valuing them more concretely. Once implemented, the state has no control over how many people and organizations will qualify for the breaks, and their dollar value has been increasing since 2011.

Here are two examples of tax breaks' impact:

First, Internet access service is sales-tax exempt. This one exclusion was estimated at $64.7 million in 2010 and is projected to be $119 million in the next fiscal year. On the plus side, it shows just how much this service has grown.

Second, there must be close monitoring of nonprofits that enjoy federal tax-exempt status. Between 2011 and last August, the Internal Revenue Service revoked this exemption for more than 18,000 organizations. Those that meet their mission offer invaluable services but, as we saw in New York during the presidential election, nonprofit operations need monitoring. Those that violate the rules should not be a cost-burden on our citizens.

By no means am I suggesting that we do away with all tax breaks. Their benefits can be extremely important to the well-being of New Jersey's economy, citizenry, and specific groups in need of assistance. However, I am strongly advocating that future legislation clearly articulates what is to be gained by the breaks, calls for reviews of their effectiveness over time, and provides a mechanism to modify or cancel them if needed.

In addition, the annual tax expenditure report needs to be more detailed and transparent and rely more on hard data than estimates. This will require a different reporting mechanism on those receiving tax breaks. Finally, the report should be used to monitor the public policy and value of these decisions.

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