

Tax Expenditures in New Jersey

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POLICY BRIEF

This is the second in a series of brief introductions to policy issues that affect the citizens of New Jersey. The purpose of these briefs is 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.

TAX EXPENDITURES IN NEW JERSEY

Introduction

On January 7, 2010, identical bills were passed by the New Jersey Assembly (A2139) and Senate (S3153). These bills, signed into law by Governor Jon Corzine, required that the Governor's annual budget message include a report on an indirect form of State spending called tax expenditures.¹ Beginning in 2010, the New Jersey Department of the Treasury has issued an annual report of tax expenditures for the immediate past, current, and immediate future fiscal years. The 2016 Tax Expenditure Report is the seventh.²

A Senate statement accompanying the bills laid out the following rationale for the report:

“While all tax expenditures are initially designed to promote the public good through the encouragement of certain economic activities or the reduction of tax liabilities in special circumstances, the passing of time may change the effect of tax expenditures to something other than their original purposes. The Legislature cannot begin to adequately assess the public policy impacts of tax expenditures, and the accomplishment of the legislative intent of tax

¹ (New Jersey State Library n.d.).

² (New Jersey Department of the Treasury 2016). Throughout this brief we are referring to this as the 2016 report to be consistent with past reports. The report includes estimates for the upcoming (2017) fiscal year.

expenditures, until sufficient empirical data exists as to the financial effects of the tax expenditures.”³

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.

Tax expenditure reports, or as they are sometimes known, tax expenditure budgets, have become a more widely used feature of both state and federal budgeting.

According to the partial estimates of the Department of the Treasury, New Jersey anticipates an estimated \$23.5 billion in tax expenditures in FY 2017, an amount roughly equal to two-thirds of the value of the annual State budget.

What is a tax expenditure?

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. A familiar example is the federal home mortgage interest deduction. This tax provision not only eases the burden of home ownership, but also subsidizes a variety of economic activities that contribute to the health of the overall economy. The federal government could provide direct payments to homeowners, but it has chosen to reduce their tax burden instead.

In the case of New Jersey:

“State government policy objectives are sought to be achieved by both the granting of direct expenditure of government funds and by the granting of special and selective tax relief or tax expenditures. Both direct expenditures of government funds and tax expenditures affect the ability of the State

³ (New Jersey State Library n.d.).

government to set tax rates and collect State tax revenue and implement the functions of government through the expenditure of government funds.”⁴

In other words, 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 dollars. Journalistic accounts often refer to tax expenditures as “tax breaks.”

Tax expenditures can take different forms. These include the following types of preferential tax treatment:

Exemptions: goods (or certain uses thereof) or services that are barred from taxation by statute (e.g., prescription drugs are not subject to sales tax). Often these are not reported, as they may not be recorded.

Exclusions: apply to items in which only a portion of the tax category is assessed (e.g., only a portion of pension income is taxed).

Deductions: “reduce income or receipts subject to tax by a specified dollar amount, percentage amount, or a specific category of recipient.”

Credits: “direct deductions from the amount of taxes that must be paid. The provision of tax credits directly reduces taxes collected and, therefore, has a greater effect on revenues than exemptions, exclusions, or deductions.”⁵

Why are tax expenditures important?

As debates continue in the Assembly and the Senate over issues like the gas tax, pensions and health benefits for public employees, and the Transportation Trust Fund, we should keep in mind that the State has chosen to provide varied types of preferential tax treatments. These foregone revenues could be part of the solution for critical issues facing the State. They could also help mitigate the actual scope of

⁴ (New Jersey State Library n.d.).

⁵ (New Jersey Department of the Treasury 2016, 3). Descriptions of exemptions and exclusions are paraphrased.

proposed tax increases in other areas. Furthermore, each tax expenditure granted, regardless of its rationale, shifts the burden of taxation to different payers.⁶

Purposes of Tax Expenditures

Tax expenditures have a variety of purposes⁷. Examples include:

- To attract, support, and/or retain key businesses or types of economic activity
- To encourage certain types of behavior, either by individuals or organizations
- To support non-profits that may be accomplishing public purposes
- To support categories of individuals who are seen as deserving (e.g., senior citizens, veterans, the disabled)
- To correct inequities in the overall tax system (e.g., exempting certain products from the sales tax helps to compensate for the regressivity of the sales tax)⁸

What are some of the criticisms of tax expenditures?

Criticisms are varied and range from the political to the complex realms of economic and tax accounting theory. We present just a few in order to indicate the significance of tax expenditures as matters of public interest⁹:

- Once written into law, tax expenditures rarely disappear.
- Tax expenditures are considered a departure from what would otherwise be a “normal” tax liability. What is “normal,” however, has no universally agreed upon answer.

⁶ (Nichols 2011).

⁷ Advantages of using tax expenditures varies widely and is usually described in general terms in the legislation creating the change in the tax laws.

⁸ A regressive tax is one that disproportionately affects low-income earners. Meaning, it takes a higher percentage of their earnings. Additional revenue sources often viewed as regressive include the property tax, user fees, and flat income taxes. Progressive taxes, like a graduated income tax, tax higher income earners at higher rates.

⁹ A good laymen’s overview of issues in state tax expenditures can be found in (Nichols 2011).

- The indirect nature of tax expenditures reduces fiscal transparency. Lack of transparency means that tax expenditures rarely become part of the fiscal debate. Once established they tend to maintain themselves.
- By reducing overall revenue, other taxes or the overall tax rate must sometimes increase in order to compensate.
- By their very nature, tax expenditures are forms of preferential treatment, which raises questions of equity. Many suggest that tax expenditures, especially for income taxes, disproportionately benefit the wealthy.
- There is often little evidence that tax expenditures achieve the purposes for which they were intended.

New Jersey's Tax Expenditure Report

In the remainder of this brief we will examine several key characteristics of New Jersey's annual tax expenditure report. We address four, broad questions:

1. What is the scope of tax expenditures in New Jersey?
2. How accurate are the data?
3. Is the Tax Expenditure Report sufficiently useful to meet the statutory intent of the legislation that created the report?
4. What practices are being used in other states that might improve the usefulness of the report?

Our appendices provide a summary of estimated tax expenditures from the most recent Tax Expenditure Report as well as a snapshot of practices in other states.

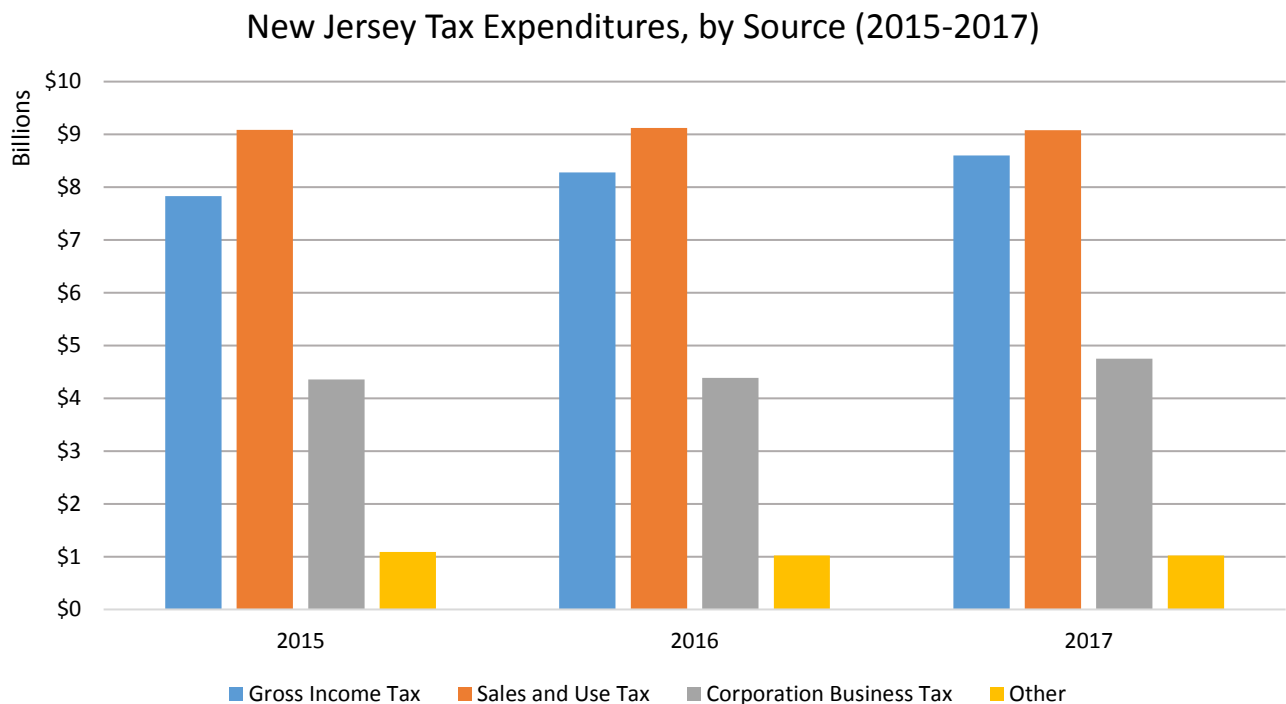
As readers review the dollar amounts reported, it is important that they keep in mind that we only have estimates for 51% of the authorized tax expenditures. Like an iceberg, a significant amount of the tax expenditure picture remains invisible.

Key Findings:

- The 2016 Tax Expenditure Report identifies 263 tax expenditures (“tax breaks”). Each tax expenditure shifts the burden of taxation to other taxpayers.
- The New Jersey Department of the Treasury projects \$23.5 billion in tax expenditures for Fiscal Year (FY) 2017. This figure only includes estimates for 51% of the authorized tax expenditures. Estimates for 49% of tax expenditures are unavailable in the 2016 report.
- Sales and Use Tax provisions account for the largest tax expenditure category, despite the fact that the most recent report only has estimates for 27% of the items in this category.
- Each of the three main categories of tax expenditures exceeds the dollar value of all areas of state direct expenditure except aid to K-12 education.
- The total dollar value of tax expenditures has been increasing since FY 2011. If projections for FY2017 are included, the increase is 3.8% or \$2.1 billion.
- Of those expenditures with estimates, 56% are drawn from a population or sample of actual returns. The remainder are from incomplete returns or scaled estimates from external data.
- Once established in law, tax expenditures rarely disappear.
- Tax expenditures authorized by statute in New Jersey have no sunset provisions, or other mechanism for periodic examination of the effectiveness of the tax provision in achieving its purpose.
- There is little evidence that New Jersey regularly reviews the eligibility of those organizations that have been granted tax exempt status.
- 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.

1. What is the Scope of the Uncollected Revenue through Tax Expenditures?

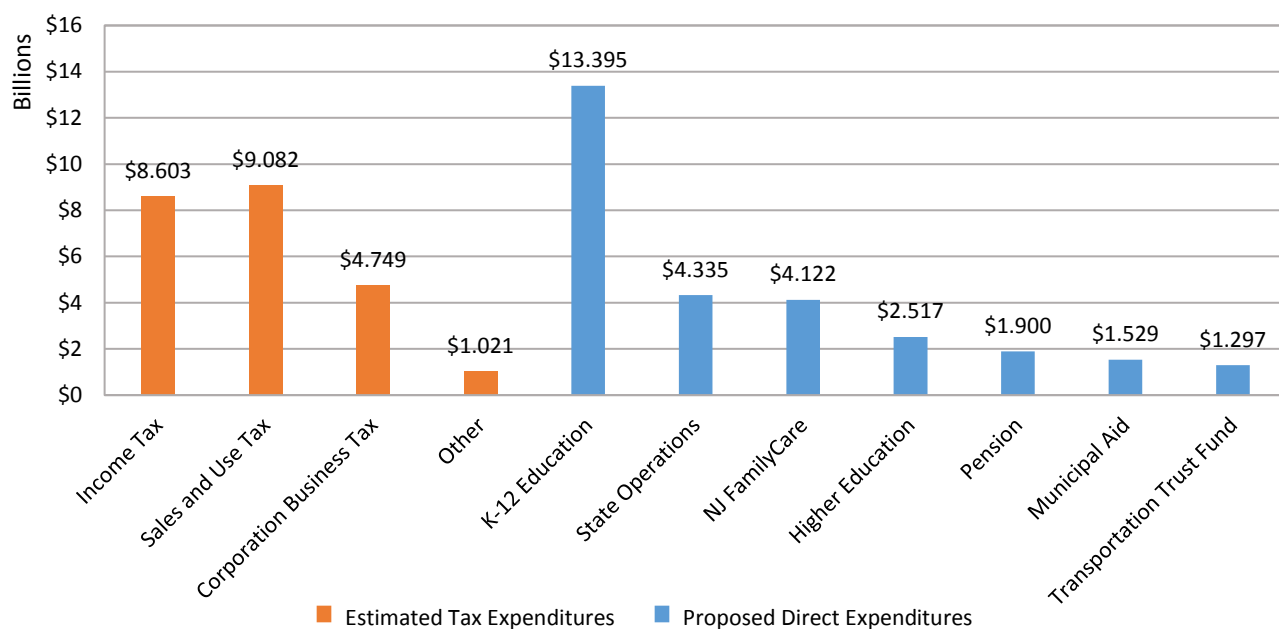
The FY 2016 report on New Jersey tax expenditures provides a projected total of \$23.5 billion for FY 2017. As noted above, this amount is approximately two-thirds of the size of the annual State budget. The breakdown by source category is as follows:



To place expenditures in another perspective, total tax expenditures across the three major sources of revenue (income tax, sales and use taxes, and the corporation business tax) are larger than most aggregate categories of spending in the Governor’s proposed FY 2017 budget.¹⁰ State funding for K-12 education, which helps alleviate the property tax burden in New Jersey, is the only budget function that exceeds the size of the three major tax expenditure categories.

¹⁰ (State of New Jersey 2016).

FY 2017 Estimated Tax Expenditures Compared to Direct Budget Functions in the Governor's Proposal (Billions)

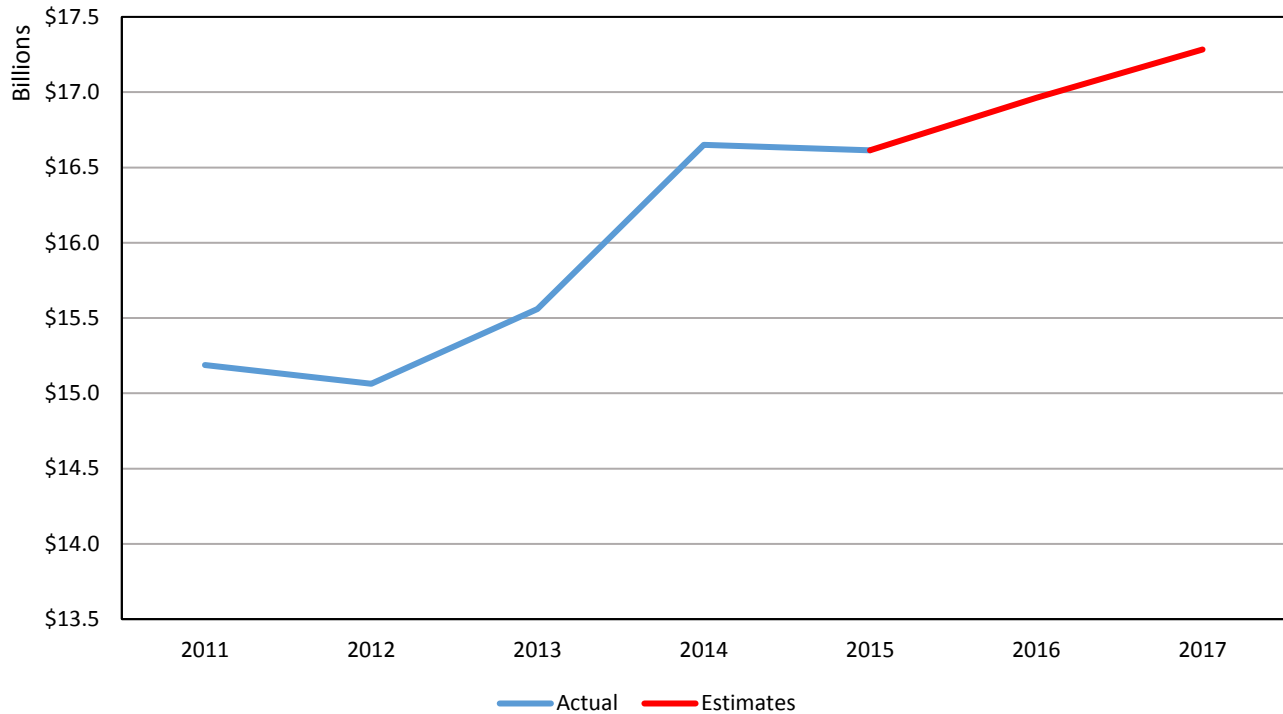


Change Over Time

In an effort to gain a sense of the change in tax expenditures in New Jersey over time, we gathered estimates of expenditures in the previous fiscal year from each annual report since 2012.¹¹ Of the comparable estimates from each report, there was a 9.5% (\$1.4 billion) increase in reported expenditures between FY 2011 and FY 2015. The difference rises to 13.8% (\$2.1 billion), if compared to the projected FY 2017 expenditures.

¹¹ The 2010 and 2011 reports are substantially less complete than successive reports. This demonstrates that the reports are becoming more complete over time. Not all of the tax expenditures in the 2016 report existed or were reported in each of these past reports, so we narrowed the list down to those that were included in each report. Also note that the “actual” totals from previous years still contain estimates for some expenditures (Cohen 2016).

New Jersey Reported Tax Expenditures Over Time (2011-2017)



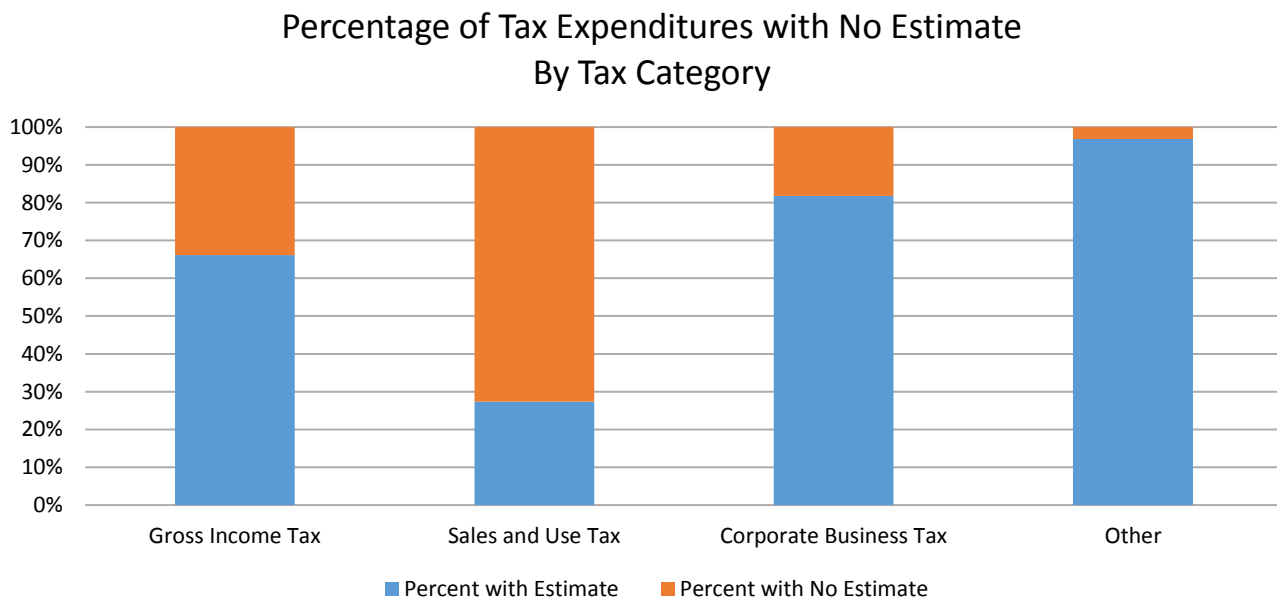
One of the issues with tax expenditures is that once a criterion or category is established, the State has no direct control over the number of qualifying individuals and organizations, or the amount of revenue foregone. Hence, the impact of tax expenditures can easily increase. For example, the sales tax exclusion for Internet access service has grown from \$64.7 million in FY 2010 to a projected \$103.6 million in FY 2015. It is further projected to increase to \$119 million in FY 2017. This is likely due to increased access to the Internet. Of course, this lack of control means that tax expenditures can also decline or fluctuate. More often than not, however, the totals increase across successive reports.

2. How Accurate are the Data?

Estimate Reliability

We have discovered in reviewing the Treasurer’s Tax Expenditure Report that tax expenditures with significant fiscal impacts are often impossible to estimate because they may not be recorded.¹² In fact, of the 263 tax expenditures in the 2016 Report, **only 51% have actual estimates.**

Moreover, this lack of information is not evenly distributed across the tax categories. 60% of the tax expenditures are in the Sales and Use Tax category. Yet, the Department of the Treasury is only able to provide estimates for 27% of the tax expenditures in this category.

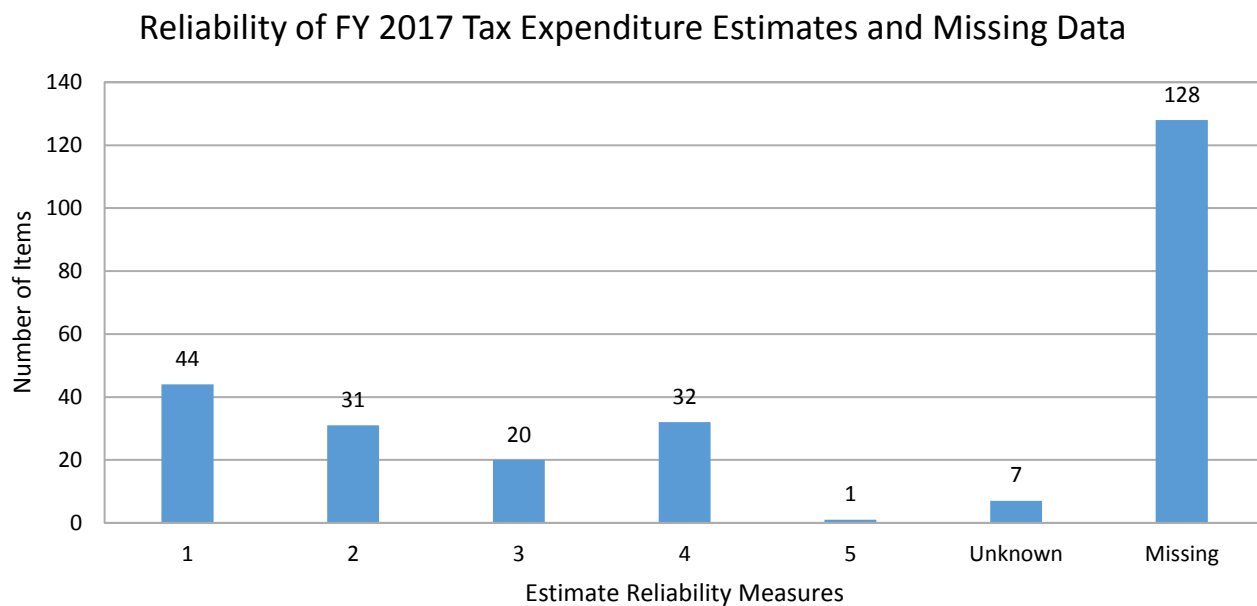


Furthermore, the estimates included in the FY 2017 report vary in their reliability.

The Department of the Treasury rates the reliability of provided estimates on a scale

¹² (Tax Foundation 2006).

from 1 to 5.¹³ A 1 indicates that the data are drawn from a population of verified returns, whereas a 5 indicates a federal (i.e., national) estimate was scaled down based on the relative size of New Jersey.¹⁴ Almost half of the expenditures (49%) in the entire report provide no estimates. Of those with estimates, 56% have a reliability of 1 or 2 (uses a statistical sample of returns). Only 1 has a reliability of 5, but 15% use a sample of returns with incomplete or unverified data (3) and 24% use average or marginal tax rates that are applied to aggregate economic data from an external source (4).



It is important to recognize the difficulty in compiling tax expenditure data. The Office of the Chief Economist/Office of Revenue and Economic Analysis in the Department of the Treasury must rely on other agencies to report some of the data, while other

¹³ Previous reports also have estimates with a reliability rating of 6. These estimates are drawn from other states and scaled to New Jersey. None of the estimates in the 2016 report have this reliability.

¹⁴ The point of reference for the size of New Jersey relative to another state or the Federal government depends on the specific expenditure being estimated. It could, for instance, be based on the size of the overall economy, a sector of the economy, or the overall population. This list is not exhaustive. (Cohen 2016).

data are simply not collected. Privacy concerns are another possible reason for missing data. Items are evaluated each year to determine whether they can be moved from missing to estimated.¹⁵ Review of each report issued since 2010 demonstrates that although substantial gaps remain in the reported figures, significant progress has been made at improving the report. In fairness, we note that in a telephone interview with a senior official in the Office of Research and Economic Analysis, it became apparent that the State has provided few resources to fulfill its mandate.

Monitoring Tax Exempt Status

All states rely on charitable or other organizations to deliver services that may benefit the broader community. However, granting tax exempt status is a special privilege that should be monitored. A full examination of how monitoring takes place and how the State's administrative units communicate with each other is beyond the scope of this brief. Based on information provided by the Division of Taxation, it does not appear that New Jersey tracks or monitors those non-profits that enjoy tax exempt status as a standard or continuing practice. A separate unit, the Charities Registration Section, located in the Division of Consumer Affairs, keeps track of charities and has a regularly updated, online, searchable list of those charitable organizations that are currently registered and have met required registration obligations.

In contrast to New Jersey's practice, the Federal Internal Revenue Service regularly monitors the tax-exempt status of organizations. It also maintains a list of organizations whose federal tax exempt status has been automatically revoked for

¹⁵ (Cohen 2016).

failure to meet adequate reporting requirements.¹⁶ This list currently identifies 18,895 New Jersey organizations whose federal tax exempt status has been revoked between 2011 and August, 2016. Of these, 12,205 were previously exempt under 501(C)(3) regulations, a standard used by the state of New Jersey.

We make no claim that there are abuses here in New Jersey, but given the number of revocations by the IRS, it would seem that, given the legislative intent of the statute mandating the Tax Expenditure Report, the State would benefit from a more comprehensive review of this matter.

3. Is the Tax Expenditure Report sufficiently useful to meet the statutory intent of the legislation that created the report?

All tax expenditure reports are imperfect. However, as the well-used aphorism says, it is better to have an approximate answer to the right question(s) than a perfect answer to the wrong one(s).

A key element in the legislative intent in creating the requirement for a tax expenditure report is:

“The Legislature cannot begin to adequately assess the *public policy impacts* of tax expenditures, and the accomplishment of the legislative intent of tax expenditures, until sufficient empirical data exists as to the *financial effects* of the tax expenditures.”¹⁷(italics added)

Our analysis suggests that the Tax Expenditure Reports provide an incomplete picture of the financial effects of tax expenditures, but very little in terms of the public policy impacts. For example, have the varied tax expenditures designed to support the health of maritime industries in New Jersey actually improved its health?

¹⁶ (United States Internal Revenue Service 2016)

¹⁷ (New Jersey State Library n.d.)

Furthermore, we do not find a widespread and continuing pattern of legislative utilization of the Tax Expenditure Report for its own stated purpose. Our conclusions are consistent with a national study by The Pew Charitable Trusts. Their report does not classify New Jersey as a state that regularly *evaluates* tax expenditures, rather it merely reports their estimated size.¹⁸

4. Examples of Practices from Other States that Might Improve Management of Tax Expenditures in New Jersey¹⁹

A survey of activities in other states is provided courtesy of the The PEW Charitable Trusts (see Appendix B). This map-based overview identifies how long states have been regularly evaluating major economic incentives, the scope of these evaluations (which in some states go beyond tax expenditures), and participants in the evaluation process. Although assessment of the reports by the New Jersey Legislature was part of their rationale,²⁰ *New Jersey, unlike some other states, does not have a formal feedback process.* Legislators and the Governor may use the report during the budgeting process, but only in an ad-hoc fashion.²¹ This stands in contrast to a state like Oregon, for example, that uses sunset clauses to require periodic re-approval of income tax credits by the legislature.

¹⁸ (Goodman, Josh, The Pew Charitable Trusts 2016)

¹⁹ See for example, (Nichols 2011) and (Goodman, Josh, The Pew Charitable Trusts 2016).

²⁰ (New Jersey State Library n.d.)

²¹ The Office of Chief Economist/Office of Revenue and Economic Analysis uses the report when making recommendations regarding tax expenditure reform (Cohen 2016). Furthermore, the Office of Legislative Services (OLS) also uses the report as one data source when writing fiscal notes for proposed legislation and its annual Tax Revenue Analysis (Brennan 2016, Office of Legislative Services 2016).

Possible Actions to Improve the Utility of the Tax Expenditure Report

1. Requiring tax expenditure legislation to have a sunset provision or a periodic review cycle. This would allow for on-going legislative oversight, but also for either eliminating tax expenditures that are no longer relevant or effective; or even the modification of the legislation to make the tax expenditure more effective.
2. Use a formal review process that involves more than the Executive branch. States use legislative staff, state agencies responsible for the policy area relating to a tax expenditure, outside experts, independent or specialized agencies, and even citizen commissions.
3. Conduct a more in depth review of some portion of the tax expenditures each year.
4. Clarify the policy objectives of existing tax expenditure so that the evaluation of their effectiveness can be easier to accomplish. The current Tax Expenditure Report attempts to estimate the financial cost of tax expenditures, but contains little analysis of policy objectives.
5. Clarify who is responsible for collecting data, using what procedures, and on what reporting cycle. Too many tax expenditure programs have no estimates of their cost, which prevents the current Tax Expenditure Report from fulfilling the purposes of the legislation that created it.
6. New legislation creating tax expenditures should contain clear policy objectives whose achievement can be assessed in the annual Tax Expenditure Report.

Where to Find More Information

The 2016 report, which includes more detailed descriptions of each expenditure, can be found online:

<http://www.state.nj.us/treasury/taxation/pdf/taxexpenditurereport2016.pdf>

To provide a quick overview for readers of this brief, we have created tables of the tax expenditures in Appendix A of this document. Readers may find some of the categories intriguing and wish to follow up with them in the full report.

Appendix A: Department of the Treasury Estimates of Tax Expenditures for 2017

Gross Income Tax

<u>Name</u>	<u>Estimate for 2017</u>
<i>Credit</i>	
Angel Investor Tax Credit Act	\$25,000,000
Credit for Taxes Paid to Other Jurisdiction(s)	\$3,206,400,000
Employer 401(k) Contributions	\$447,300,000
Gross Income Tax: Sheltered Workshop Tax Credit	\$55,000,000
Gross Income under \$20,000	\$64,000,000
New Jersey Earned Income Tax Credit Payments	\$391,600,000
Property Tax Credit	22,100,000
<i>Deduction</i>	
Cafeteria Plan, Qualified Option	No Estimate Reported
<i>Deduction/Exemption</i>	
Alimony and Separate Maintenance Payments	\$43,200,000
Deductions for Medical Savings Account Contributions	\$3,800,000
Deductions from Business Income	\$369,600,000
Deductions from Rents, Royalties, Patents and Copyright	\$498,600,000
Dependent Attending College	\$10,500,000
Health Enterprise Zone Deduction	\$900,000
Medical Expenses	\$368,200,000
Personal Exemptions and Deductions	\$785,100,000
Property Tax Deduction	\$442,000,000
Qualified Conservation Contribution	\$1,100,000
Self-Employed Health Insurance Costs	\$59,600,000
<i>Exclusion</i>	
Capital Gain Exclusion on Sale of Principal Residence	\$112,400,000
Cash or Assistance from a Charitable Organization	No Estimate Reported
Certain Exclusions from Military Pay	No Estimate Reported
Charitable Trust or Pension/Profit Sharing Plan Trust	No Estimate Reported
Child Support	\$14,600,000
Commuter Transportation Benefits	No Estimate Reported
Damages for Personal Injury or Illness	No Estimate Reported
Education IRA or State Tuition Plan Earnings	No Estimate Reported
Employee 401(k) Contributions	\$447,300,000
Employee's Death Benefits	No Estimate Reported
Employer Contributions to Retirement Plans	No Estimate Reported
Exempt Interest (Federal) Exclusion	\$13,000,000
Exempt Interest (State) Exclusion	\$5,000,000
Family Leave Benefits	No Estimate Reported
Gambling Losses	No Estimate Reported
Gifts and Inheritances	\$143,900,000
Holocaust Reparations and Restitution	No Estimate Reported

Homeless Persons' Assistance Programs	No Estimate Reported
Life Insurance Payments	No Estimate Reported
Loan Redemption	No Estimate Reported
Lottery Winnings under \$10,000	\$2,300,000
Medical Savings Account Contributions	No Estimate Reported
Military Pension and Survivor's Benefits Payments	No Estimate Reported
Other Retirement Income Exclusion and Special Exclusion	\$1,000,000
Permanent Disability Exclusion	\$17,200,000
Railroad Retirement Exclusion	\$6,000,000
Realty	\$129,500,000
Roth IRA Distributions	No Estimate Reported
Scholarships and Fellowship Grants	No Estimate Reported
Social Security Income Exclusion	\$265,600,000
Temporary Disability Exclusion	\$103,300,000
Unemployment Insurance Exclusion	\$136,200,000
Victims of September 11, 2001 Terrorist Attacks	No Estimate Reported
Welfare Assistance Payments	\$60,000,000
Worker's Compensation Exclusion	\$12,300,000
Exemption	
Age 65 years or older exemption	\$33,100,000
Blind/disabled exemption	\$2,600,000
Dependent child exemption	\$121,100,000
Other dependent exemptions	\$9,300,000
Taxpayer and Spouse/CU Partner	\$172,900,000
Angel Investor Tax Credit Act	\$25,000,000

Sales and Use Tax

Name

Estimate for 2017

Exclusion

Business Retention and Relocation Assistance Grants	\$13,000,000
Admission to Athletic Games: Elementary or Secondary Schools	No Estimate Reported
Admissions Charges from an Exempt Organization	No Estimate Reported
Bakery Items	\$36,000,000 No Estimate
Capital Improvements to Real Property	Reported
Casino Parking Charges pursuant to an agreement between the CRDA and a Casino Operator	No Estimate Reported
Credit for Certain Property When Used as a Trade-In	\$837,000,000 No Estimate
Direct Mail Advertising and Processing Services	Reported No Estimate
Distribution of Certain Corporate Property	Reported
Eggs, Fish, Meat and Poultry	\$234,000,000 No Estimate
Employer Provided Parking	Reported No Estimate
Food and Drink for Airline Passengers	Reported
Food Purchased with Food Stamps	\$4,000,000 No Estimate
Food Sold by a Manufacturer	Reported No Estimate
Food Sold in an Unheated State	Reported No Estimate
Food that is Cut, Repacked or Pasteurized by the Seller	Reported
Garbage Removal and Sewer Services	\$80,100,000 No Estimate
Garment Services	Reported No Estimate
Hotel Occupancy by a Permanent Resident	Reported No Estimate
Inconsequential Tangible Personal Property	Reported
Initiation Fees and Membership Dues: Exempt Entity Operated	No Estimate Reported
Initiation Fees and Membership Dues: Youth Membership	No Estimate Reported
Interest, Financing, and Carrying Charges	Reported
Internet Access Service	\$119,000,000
Laundry and Dry Cleaning Services for Clothing	\$14,000,000 No Estimate
Limousine Services - Funerals	Reported
Massage Therapy Services	\$4,000,000

Milk Sales by Coin-Operated Vending Machine	No Estimate
Municipal Parking Charges	Reported \$13,600,000
Non-Reimbursed Discounts	No Estimate Reported
Parking Charges Subject to Other Taxes	No Estimate Reported
Parking Charges Subject to the Atlantic City Parking Fee	No Estimate Reported
Participatory Sporting Activities	\$23,700,000
Partnership Distributions	No Estimate Reported
Prepared Food Delivered to Homebound	No Estimate Reported
Private Services to a Homeowner	No Estimate Reported
Property Contributed Towards Partnership Interest	No Estimate Reported
Purchases for Resale	\$2,878,700,000
Radio and Television Programming Services	No Estimate Reported
Resale of Taxable Services	\$204,600,000
Residential Home Heating System services	No Estimate Reported
Residential Parking	No Estimate Reported
Sales of Property held for Security	No Estimate Reported
Services Performed as an Employee	No Estimate Reported
Services Rendered by Certain Individuals	No Estimate Reported
Services to Exempt Medical Equipment	No Estimate Reported
Shoe Repairs	No Estimate Reported
Storage of Property Held for Sale	No Estimate Reported
Taxes Imposed on the Consumer	No Estimate Reported
Transfer of Property for Corporate Stock	No Estimate Reported
Transfer of Property to a Corporation	No Estimate Reported
Advertising to be published in a newspaper	\$88,100,000
Exemption	
Barges	No Estimate Reported
BPU-Regulated Service Provider purchases of equipment	No Estimate

Broadcast equipment	Reported \$2,100,000
Building Materials and Supplies Purchased for an Exempt Organization	No Estimate Reported
Cargo Containers	No Estimate Reported
Casual Sales	No Estimate Reported
Charitable organizations exemption	Reported \$50,000,000
Chemicals and Catalysts used in manufacturing processes	No Estimate Reported
Clothing and footwear	Reported \$948,600,000
Cogeneration Facility purchases of machinery and apparatus	No Estimate Reported
Coin-Operated Telephone Service	No Estimate Reported
Coin-Operated Vending Machine Sales under \$.25	No Estimate Reported
Commercial Fishing Boats and Boat Repairs	No Estimate Reported
Commercial Fishing Vessels	No Estimate Reported
Commercial Trucks and Truck Repairs	No Estimate Reported
Commercial Trucks Used for Interstate Travel	No Estimate Reported
Concession Stand Sales: State-Owned Veterans Facilities	No Estimate Reported
Diabetic Supplies	No Estimate Reported
Dietary supplements	Reported \$62,700,000
Diplomats, Consulates and Foreign Embassies	No Estimate Reported
Disposable household paper products	Reported \$80,700,000
Durable Medical Equipment	No Estimate Reported
Electricity sales, exchanges and delivery	Reported \$18,000,000
Electronically Delivered Software for Business Use	No Estimate Reported
Energy and Utility Service	No Estimate Reported
Equipment for Printing and Publishing	No Estimate Reported
Equipment Used on Boats or Ships	No Estimate Reported
Exempt Organizations: Parent-Teachers Associations	No Estimate Reported
Exempt organizations: State of New Jersey and its agencies	Reported \$65,000,000
Exempt Organizations: United Nations	No Estimate Reported

Exempt organizations: United States of America	\$278,900,000
Farm machinery and apparatus	No Estimate Reported
Farm Vehicles and Vehicle Repairs	No Estimate Reported
Feminine Hygiene Products	\$3,100,000
Ferryboats carrying passengers	No Estimate Reported
Films, Records and Tapes Used in Radio and Television	No Estimate Reported
Firearm Safety Locks	No Estimate Reported
Firearm storage vaults	\$5,500,000
Flag sales (American and New Jersey State)	No Estimate Reported
Food and food ingredients	\$1,627,300,000
Gas, Water, Steam and Fuel in Containers and Bulk	No Estimate Reported
Gold and Silver	No Estimate Reported
Government-owned Ships and Other Vessels	No Estimate Reported
Human Blood and its Derivatives	No Estimate Reported
Imprinting Services	No Estimate Reported
Limousines and Limousine Repairs	No Estimate Reported
Locomotives, Railroad Cars and Other Railroad Rolling Stock	No Estimate Reported
Magazines and Periodicals	No Estimate Reported
Marine Terminal Facility equipment and apparatus	No Estimate Reported
Marine Terminal Services	No Estimate Reported
Medical Oxygen	No Estimate Reported
Membership Periodicals	No Estimate Reported
Mobility Enhancing Equipment	No Estimate Reported
Motor, airplane, and railroad fuels	\$158,500,000
Newspapers	No Estimate Reported
Out-of-State Sales	No Estimate Reported
Over-the-counter drugs	\$81,400,000
Partial Sales Tax Exemption for Boats and Other Vessels	No Estimate Reported

Prescribed drugs and medications	\$695,600,000
Printed Advertising Material Delivered Out-of-State	No Estimate Reported
Production Machinery	No Estimate Reported
Property purchased for film or video productions	\$1,200,000
Property Used in Research and Development or Laboratory Sense	No Estimate Reported
Prosthetic devices	\$19,200,000
Protective Work Equipment	No Estimate Reported
Public Passenger Buses	No Estimate Reported
Recycling equipment purchases	\$5,900,000
Rental of Tangible Personal Property to Related Parties	No Estimate Reported
Repairs to Certain Aircraft	No Estimate Reported
Sale-Leaseback Transactions	No Estimate Reported
Salem county reduced sales tax	\$4,900,000
Sales by a Mortician, Undertaker or Funeral Director	No Estimate Reported
Sales of Certain Aircraft	No Estimate Reported
School textbooks	\$16,400,000
Sewing materials	\$4,000,000
Solar energy devices and system components	\$17,800,000
Tax Exempt Organizations: National Guard and War Veteran Posts	No Estimate Reported
Tax Exemption for Certain Fishing Vessels and Equipment	No Estimate Reported
The Energy Sales Tax	No Estimate Reported
Transportation Charges Exemption	No Estimate Reported
Urban enterprise zone exempt business purchases	\$224,200,000
Utility Equipment Purchases	No Estimate Reported
Vessels of 50-ton burden or more	No Estimate Reported
Volunteer Fire and Similar Emergency Companies' purchases	No Estimate Reported
Wrapping Supplies	No Estimate Reported
Zero emission vehicles	\$4,800,000
Other	
Urban enterprise zone special sales tax rate	\$156,800,000

Corporate Business Tax

<u>Name</u>	<u>Estimate for 2017</u>
<i>Credit</i>	
AMA tax credit	\$15,300,000
Business employment incentive program (BEIP)	\$160,100,00
Business retention and relocation tax credit	\$14,800,000
Digital Media Production Credit	No Estimate Reported
Economic recovery tax credit	\$0
Effluent equipment tax credit	\$0
Film production tax credit	\$2,100,000
HMO assistance fund tax credit	\$0
Manufacturing equipment and employment investment tax credit	\$16,400,000
Neighborhood revitalization state tax credit	\$2,800,000
New Jersey Economic Opportunity Act of 2013	\$171,500,000
New jobs investment tax credit	\$0
Redevelopment authority project tax credit	\$1,000,000
Remediation tax credit	\$0
Research and development tax credit	\$54,500,000
Sheltered Workshop Tax Credit	\$0
Urban enterprise zone employment tax credit	\$0
Urban enterprise zone investment tax credit	\$0
Urban transit hub tax credit	\$107,800,000
 <i>Deduction</i>	
All income of New Jersey's S corporations	\$256,000,000
Exceptions to related intangible costs expense add back	\$122,000,000
Lack of throw back	\$127,000,000
Net operating loss deduction	\$558,000,000
 <i>Exclusion</i>	
60% of investment company income	\$66,900,000
96% of real estate investment trust/regulated investment	\$6,800,000
Dividend exclusion (50-80% owned)	\$205,900,000
Dividend exclusion (greater than 80% owned)	\$2,860,400,000
 <i>Exemption</i>	
Agricultural co-operatives	\$0
Business Income of Non-Profits	No Estimate Reported
Cemetery Corporations not conducted for profit	No Estimate Reported
Non-Profit Corporations	No Estimate Reported
Non-Profit Retirement Communities	No Estimate Reported
Non-Stock Residential Housing	No Estimate Reported

Alcoholic Beverage Tax

<u>Name</u>	<u>Estimate for 2017</u>
<i>Exemption</i>	
Out-of-state sales - Beer and malt	\$16,600,000
Out-of-state sales - Liquor	\$7,600,000
Out-of-state sales - Still wine	\$26,400,000
Out-of-state sales - Vermouth/sparkling wine/apple cider	\$1,000,000

Cigarette Tax

<u>Name</u>	<u>Estimate for 2017</u>
<i>Credit</i>	
Director's redemption of certain stamps	\$1,200,000
Distributor discounts	\$1,400,000
<i>Exemption</i>	
U.S. Constitution Federal laws	No Estimate Reported
U.S. V.A. for Free Distribution to Hospitalized Veterans	No Estimate Reported

Motor Fuels Tax

<u>Name</u>	<u>Estimate for 2017</u>
<i>Exemption</i>	
Fuel used by ambulances	\$100,000
Exported fuels	\$40,000
Fuel used by aircraft	\$17,000
Fuel used by certain agricultural tractors and farm machinery	\$13,000
Fuel used by certain autobuses	\$700,000
Fuel used by non-highway equipment	\$600,000
Off road use of on road vehicles	\$100,000
Total exempt government sales	\$2,000,000

Petroleum Products Gross Receipts Tax

<u>Name</u>	<u>Estimate for 2017</u>
<i>Exemption</i>	
Withdrawn for Use Outside NJ	\$4,200,000

Local Property Tax Support

<u>Name</u>	<u>Estimate for 2017</u>
Deduction	
Senior citizen real estate tax deduction	\$12,000,000
Veteran's deduction	\$60,800,000
Direct Property Relief	
Property tax reimbursement	\$204,400,000
Homestead Benefit	\$325,100,000

Other Fees and Assessments

<u>Name</u>	<u>Estimate for 2017</u>
Domestic Security Fee	
Credit	
Total Deductions	\$1,000,000
Hotel/Motel Occupancy Fee	
Credit	
Government exemption	\$30,000,000
Deduction	
Permanent resident exemption	\$85,000,000
Exclusion	
Rooms for assembly	\$7,000,000
Motor Vehicle Tire Fee	
Exemption	
Exempt tires sales times \$1.50 tire fee	\$2,000,000
Realty Transfer Fee	
Deduction/Exemption	
Exempt sales exceeding \$1 million where the grantee pays	\$27,600,000
Exemption	
Partial realty transfer fee exemption	\$18,500,000
Total realty transfer fee exemption for sales price less than \$100	\$147,100,000
Total realty transfer fee exemption for sales price that would have exceeded \$100	\$12,000,000
Nursing Home Assessment	
Exemption	
Exempt Days Times Rate	\$25,400,000

**911 System and Emergency Response Assessment
Exemption**

Exempt telephone lines

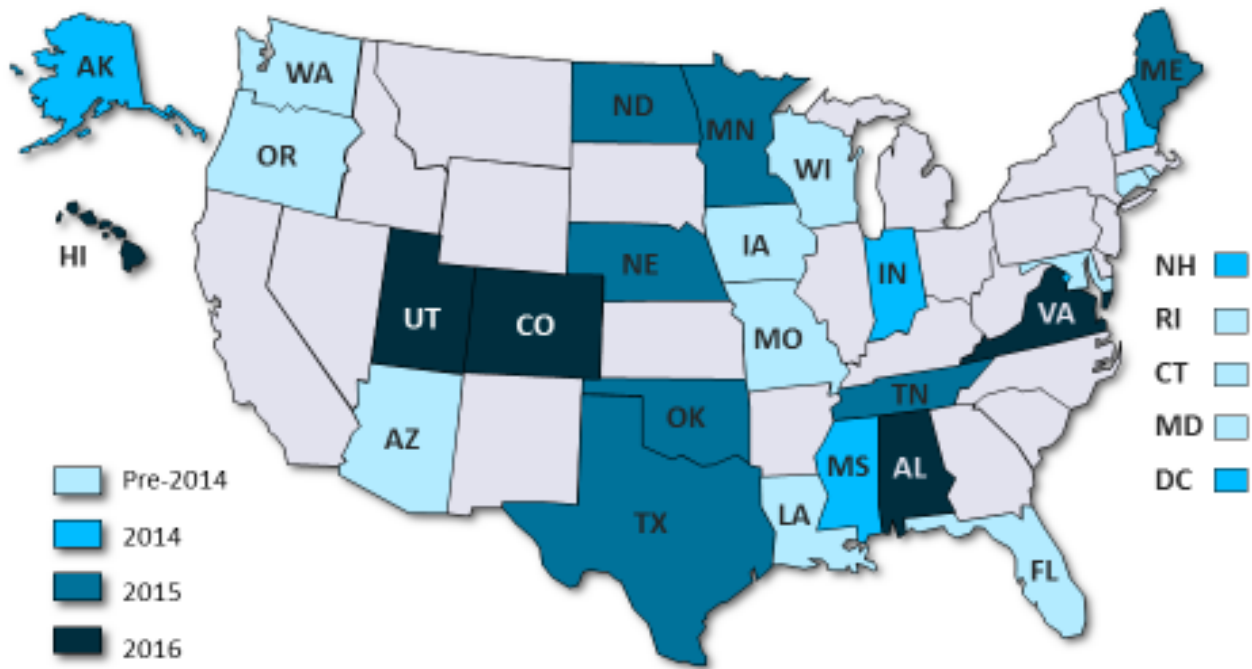
\$1,000,000

Appendix B: State by State Overview of Tax Expenditure Review

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States regularly evaluating tax incentive programs

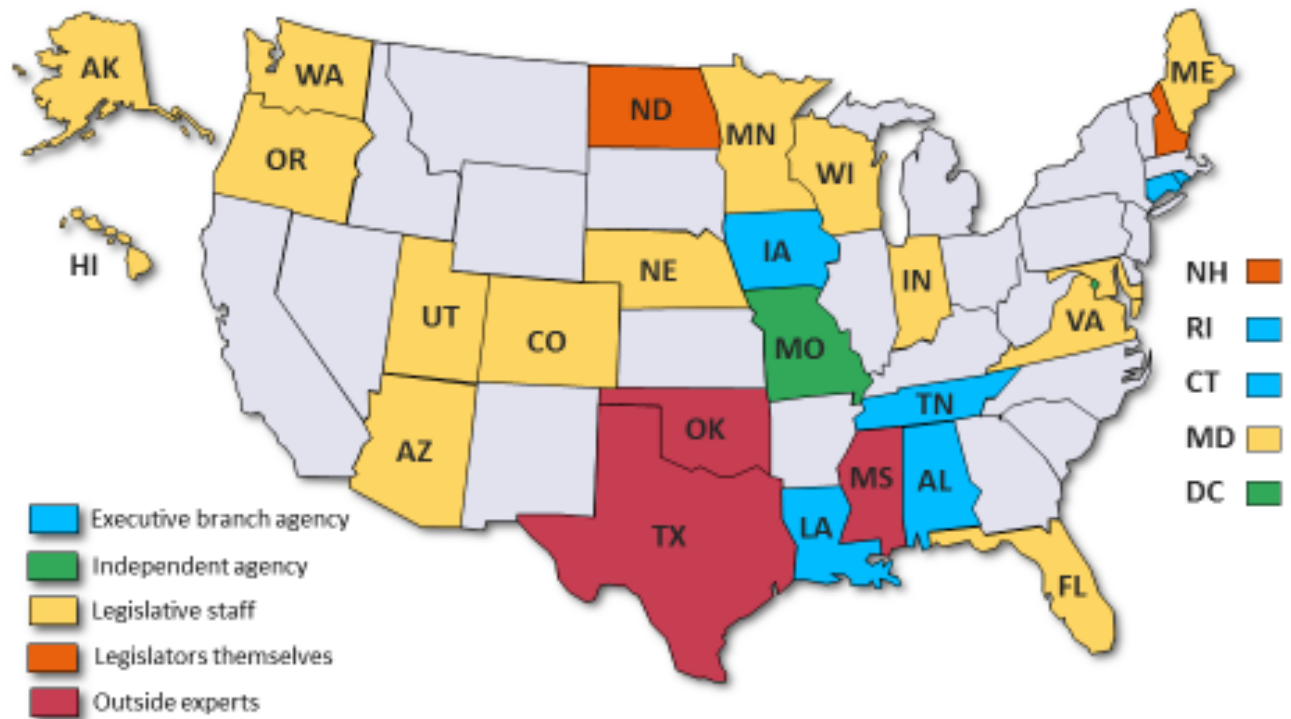


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²² These maps are updated versions of maps included in (Goodman, Josh, The Pew Charitable Trusts 2016), supplied via email on August 17, 2016)

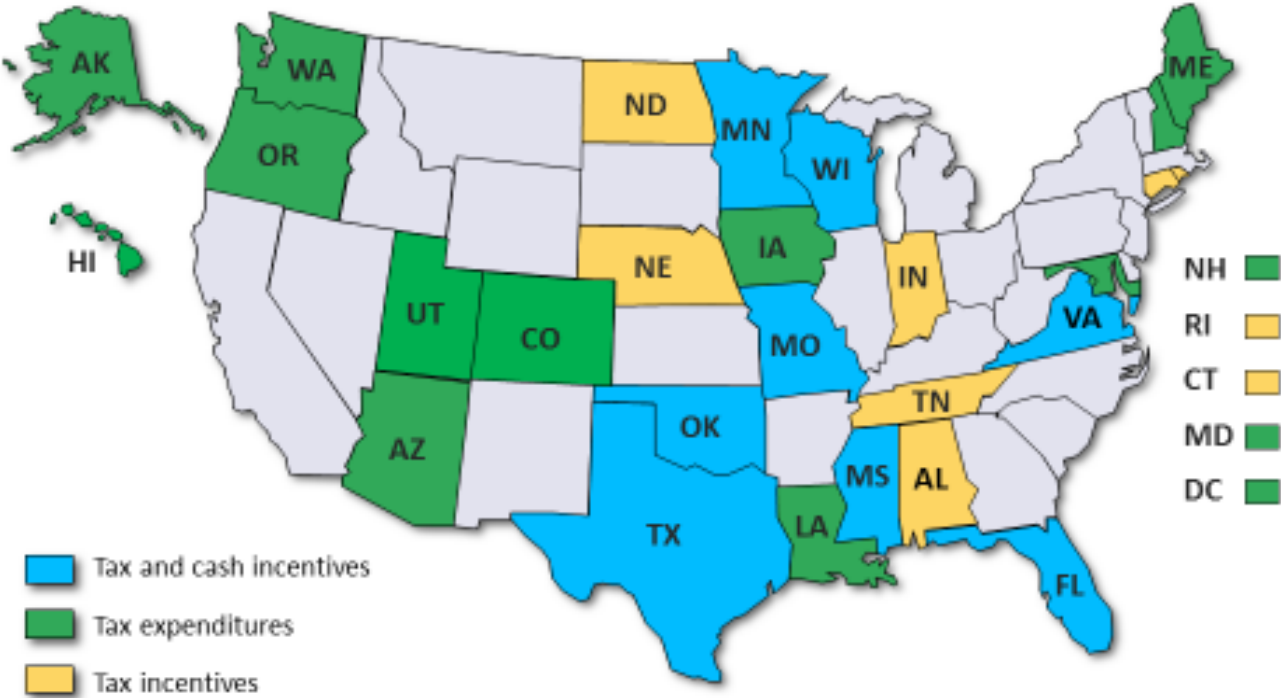
Who evaluates



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Scope of evaluations



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