

NJBIA

REPORT TO MEMBERS *by Philip Kirschner, President*

A New Attitude on Business Taxes

There is a new attitude in Trenton about business taxes. After spending most of the decade increasing the burden on New Jersey employers, lawmakers have finally concluded that cutting business taxes is a good strategy for creating jobs and getting people back to work.

Evidence of the new attitude was on display at NJBIA's December 14 Public Policy Forum. During a panel discussion, the Democratic legislative leaders, Senate President Stephen Sweeney and Assembly Speaker Sheila Oliver, debated with their Republican counterparts, Senator Tom Kean and Assemblyman Alex DeCroce, over which party had the better plan to cut business taxes.

The significance of such a debate was not lost on the Forum's keynote speaker, Lt. Governor Kim Guadagno, who told the audience: "Who would have thought we would have heard a debate this morning between the Democrats and the Republicans about who has the better business tax bill in New Jersey?"

This debate promises to produce meaningful results. Legislators have been working on several bills aimed at economic development and job creation, some of which would bring about tax changes that have been on NJBIA's agenda for a number of years.

Among them is single-sales-factor reform, which would base the corporate business tax solely on in-state sales. This would give in-state companies with New Jersey employees and facilities the same lower tax treatment as out-of-state companies that just sell here.

Another reform would allow companies paying income taxes instead of corporate taxes to deduct business losses over a period of 20 years. It would also allow them to deduct losses in one income category from gains in other income categories. Under current law, deductions can only be applied to income within that category.

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For most of the last decade, debates over taxes centered on how much to increase them. Take the disastrous corporate business tax increase in 2003, for example, that socked businesses with a gross receipts and gross profits tax in the middle of a recession. Then there was the millionaire's tax that actually started at \$500,000.

Not surprisingly, New Jersey's ranking on the Tax Foundation's State Business Tax Climate Index plummeted to the bottom and stayed there until this year, when it climbed from 50th in the nation to 48th.

The catalyst for the current business-tax reform movement was Governor Chris Christie, who held firm on his promise to cut state spending and not raise taxes. Even though the state faced a whopping \$11 billion budget deficit, Christie steadfastly refused to increase taxes. The Governor signed a Fiscal 2011 budget that closed the gap by cutting spending.

The Governor, who is expected to unveil tax reform proposals in January, also did not extend the 4 percent surcharge on the corporate tax. He also refused to renew the expired "temporary" tax that raised income tax rates for individuals, S corporations, LLCs and partnerships making more than \$400,000.

The Governor did not want to raise taxes on anybody, believing, as NJBIA does, that the budget had to be balanced by cutting spending. It seems like common sense, but in Trenton this represents a whole new attitude. **NJB**

