

NJBIA

REPORT TO MEMBERS

by Philip Kirschner, President

Economic Climate: New Jersey's Next Steps

Economists across the nation are seeing hopeful signs that the economy might finally be hitting bottom and that an economic recovery could begin soon. But even the most optimistic of them warn that economic growth will be very modest and that unemployment could remain high for some time. With that in mind, the state must continue to improve the business climate.

In the fall of 2008, the state responded swiftly to the economic crisis. It put in place new incentive programs for creating jobs and undertaking capital improvement projects. It also reformed New Jersey's corporate business taxes to make them more competitive. This spring, it reformed several of the existing economic development programs to make them more effective.

Now, legislators should take the next step in corporate tax reform by enacting what is known as the single sales factor. Corporate taxes in New Jersey are based on three factors—a company's

in-state sales, its employment, and its facilities. Companies in New Jersey are actually taxed more on comparable sales than companies outside New Jersey that have not invested in hiring employees or building facilities here.

This is backwards. We should reward New Jersey-based businesses that have created jobs here and have established roots here with the construction or purchase of a building. That's why New Jersey should do what many other states have done—base the corporate business tax solely on in-state sales. This would level the playing field. It would make New Jersey more attractive for companies looking to stay, relocate or expand here. Assemblyman Louis Greenwald and State Senator Stephen Sweeney are sponsoring legislation (A-4028 and S-2910) that would do just that. The Legislature should pass it.

>New Jersey's government has done some good things **in responding to the economic crisis**. But now is not the time to let up.

In addition, New Jersey must avoid another payroll tax increase next year. Since 1993, Governors from both parties, except Jon Corzine, have diverted \$4.7 billion in Unemployment Insurance fund contributions for general state spending. Next year, the UI fund could run a deficit of \$1.6 billion to \$2.2 billion. Such a shortfall would trigger a massive payroll tax increase that would stifle the ability of New Jersey employers to maintain jobs just when we need them the most. Preventing a payroll tax increase must be a priority! No excuses are acceptable. The state took the money. It should at least pay some of it back to avoid a tax increase.

New Jersey's government has done some good things in responding to the economic crisis. But now is not the time to let up. **NJB**

