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Report TO MEMBERS

This Year's State Budget Is Only First Step to Fiscal Sanity

Change was in the air during this year's chaotic state budget deliberations. Unlike many budgets in years past, the fiscal 2007 budget was not balanced on the backs of New Jersey employers. In fact, it contained a number of tax-saving provisions that will save employers hundreds of millions of dollars and make New Jersey's economy more competitive.

Net operating losses can now be fully deducted, the onerous corporate alternative minimum tax is eliminated, and S corporations will receive tax relief. To be sure, the budget contains a number of tax increases and still increases spending too much. On balance, however, when compared to recent past budgets, the impact on most employers will be more positive than negative and that is a major change.

NJBIA is proud of the role it played in ensuring that the business community did not bear the brunt of tax increases. To ensure that the business community would not be subjected to unreasonable tax hikes, NJBIA staff worked through the Fourth of July weekend and through the night of July 7 as legislators prepared the final budget document.

The budget agreement, while far from perfect, contains the following positive tax changes and savings for business. These items were all top NJBIA priorities. They:

- allow businesses to fully deduct all net operating losses (\$300 million tax savings);
- eliminate the alternative minimum assessment portion of the Corporation Business Tax, which forced businesses that had lost money to pay taxes (\$250 million savings);
- lower the tax burden on S corporations (\$20 million savings);
- end the diversion of employer payroll taxes paid to the Unemployment Insurance (UI) Trust Fund for the first time in 13 years (a \$300-\$400 million savings as payroll taxes would have increased by this amount had the diversions continued); and
- eliminate the proposed hospital bed tax and water tax increase.

NJBIA also was able to stop several antibusiness tax proposals. These included an expansion of the sales tax to professional services, computer services and temporary employment; a gross receipts tax on all employers; a tax hike on people earning between \$200,000 and \$500,000 that would have hit partnerships, LLCs and other small business entities hard; and an increase in employee Temporary Disability Insurance (TDI) payroll taxes that would have inevitably affected employers.

In addition to increasing the sales tax and expanding it to some services, legislators enacted the following taxes that will impact business. They imposed a new tax surcharge equal to 4 percent of a company's CBT tax liability, after tax credits. The surcharge will be temporary, expiring after three years.

The budget also increases the minimum CBT tax payment from \$500 to a graduated range of \$750 to \$2,000 and extends for two years the transitional energy facilities assessment (TEFA), which will add \$45 million a year to consumers' energy bills.

On balance, Governor Jon Corzine deserves credit for crafting a budget that does not target business for enormous new revenues and which repeals many of the onerous taxes passed during the McGreevey Administration. Also the budget does not greatly rely on one-shot, non-recurring revenues as previously had been the case, and it starts to pay down the state's enormous debt.

However, as the Governor and legislative leaders know, this is only a start.

The challenge ahead is to attack the root causes of fast-rising government spending, which include the state's school funding formula, government-employee pensions and health benefits, and too many local-government units.

To finally get New Jersey back on the road to fiscal health, these issues must be addressed and government spending must be brought under control. ❧