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# Report

## TO MEMBERS

## Governor's Budget Is a Good Start But More Work Needs to Be Done

In his new state budget plan, Governor Jon Corzine has made a sincere effort to close a \$4.3 billion deficit. The Fiscal 2007 budget, now being reviewed and reworked by the Legislature, contains some good news for the business community.

Corzine deserves credit for making some hard choices in his effort to start bringing state expenses in line with state revenues. Most notably, he proposed reducing state government operations by \$1 billion. Only when the state starts to live within its means can it expect to close the recurring budget gap that has plagued it for the last five years.

The good news in the Governor's budget plan is this: It would allow some onerous taxes imposed on the business community since 2002 to expire as scheduled. The budget would allow net operating losses to be deducted, and it would not extend the alternative minimum assessment on business, saving employers an estimated \$200 million a year.

The Governor also would resume the phase-out of corporate taxes on S corporations (a phase-out that was halted in 2002), decreasing the tax rate from 1.33 percent to 0.67 percent.

Corzine explained in his budget address these actions are necessary to ensure the state's "economic competitiveness." Legislators should follow the Governor's lead and approve these measures.

Tax deductions for net operating losses (NOLs) are permitted in every other state. They allow businesses that lose money in one year to deduct those losses in future profitable years. The ability of New Jersey employers to fully deduct net operating losses was suspended in 2002. That suspension ended in December 2005.

The alternative minimum assessment (AMA), which is set to expire on July 1, was imposed in 2002 as part of the state's infamous \$1.5 billion increase in the Corporation Business Tax. The

AMA taxes gross receipts instead of profits, forcing many companies to pay taxes even when they are losing money. No other state has this tax. The AMA in effect punishes businesses by taxing the things we should encourage them to do—like paying good wages and benefits and investing in their operations.

Finally, the Governor proposed ending a 12-year raid on the state's Unemployment Insurance (UI) fund. For too long, the state has diverted UI tax payments from the fund to cover other state budget expenditures. The cumulative diversion of \$4.7 billion in UI tax payments has left the fund balance dangerously low. This could trigger an increase in employer payroll taxes of \$300-\$400 million in 2007. The Legislature should end the diversions once and for all and do all it can to prevent such a payroll tax hike in the future.

There are some things in the Governor's budget plan that we don't like. These include a 2.5 percent surcharge for three years on corporate business taxes, which would cost business about \$60 million each year; a \$12 million increase in the water tax; and an increase in the sales tax, as well as an extension of that tax to some new services. New Jersey already has many of the highest costs of doing business in the nation, and we certainly don't need additional taxes.

We also don't like the budget's proposed 9 percent spending increase. Most of this increase is driven by court-ordered school spending and formula-driven health and pension contributions, but we'd like to see more cuts made to avoid the necessity of tax increases.

Although the Governor's budget is far from perfect, it does limit some state operating expenses and it does recognize that increasing the state's business-tax burden would discourage economic growth. We will work with the Legislature to identify more spending cuts. We will also work hard on behalf of New Jersey employers to preserve NOL deductions and to prevent the re-imposition of the AMA. ❧