



ENACT SINGLE SALES FACTOR BUSINESS TAX REFORM FOR MANUFACTURERS

DESCRIPTION

To determine New Jersey's share of national taxable income of multi-state businesses, New Jersey uses a formula that considers the value of the New Jersey property (owned or leased facilities), New Jersey portion of the company payroll and New Jersey sales receipts. This works against the public interest by punishing companies that invest and create jobs in New Jersey with higher taxes than companies that invest elsewhere, but simply sell their goods and services here. The Single Sales Factor (SSF) reform would level the playing field for New Jersey companies by eliminating the use of the property and payroll factors, and base a firm's New Jersey taxable income solely on its New Jersey sales relative to its national sales.

BACKGROUND

For companies doing business in more than one state, how to allocate a company's tax liability across these various states is a serious tax issue. In the 1950s, states adopted uniform legislation creating a three part test to determine the share of a multi-state business' profits taxed in any one state. The three part test allocated taxable income to a particular state based on that state's share of a company's national property, payroll and sales. In other words, the more of a physical presence a company maintained in a state, the greater its tax burden in that state.

Over time, most states amended their three-part tests to lessen the negative tax impact of in-state presence (the property and payroll factors) and increase the impact of the sales factor. New Jersey joined this effort in 1995 when legislation was enacted to double weight the sales factor—in effect diminishing the property and payroll factors.

Since 2004, there has been an accelerating trend for states to adopt the SSF, eliminating the property and payroll factors entirely. States have done this either for particular industries (manufacturers, for example) or for all businesses. These states are listed below.

States with SSF legislation:

Connecticut	Georgia	Illinois
Iowa	Maryland (manufacturers only)	Massachusetts (certain manufacturers)
Michigan	Minnesota (phased in by 2014)	Mississippi (non- manufacturers only)
Missouri (optional)	Nebraska	New York
Oregon (phased in by 2008)	Pennsylvania (at 70 percent with phase in underway)	South Carolina (non- manufacturers only)
Texas	Wisconsin	

NJBIA POSITION

NJBIA supports a phase-in of the SSF for manufacturers as a way to improve our manufacturing, reduce the cost of doing business for manufacturers and as an economic development tool for manufacturing job retention.

ARGUMENTS IN SUPPORT OF THE SSF REFORM FOR MANUFACTURERS

Manufacturing remains an important industry sector in New Jersey, but is experiencing across-the-board job declines. Since 2001, New Jersey manufacturers have lost 96,200 jobs, a 23 percent decline.

Despite these job declines, manufacturers will relocate or expand operations in New Jersey if economic development incentives help reduce their cost of doing business. For example, in the successful Business Employment Incentive Program (BEIP), which rewards businesses with job-creation and expansion subsidies, manufacturers make up the largest number of employer participants (40 percent).

With 320,000 manufacturing jobs remaining in New Jersey and another 170,000 jobs dependent on manufacturing, a public policy imperative should be to construct incentives to help retain the manufacturing jobs we have by reducing existing manufacturers' cost of doing business.

New Jersey's tax policies for multi-state businesses penalize firms that operate in New Jersey, in comparison to businesses that have little in the way of in-State operations but sell products and services here. New Jersey's business tax structure particularly discriminates against in-State manufacturers. In effect, New Jersey's manufacturers pay a hidden "investment and jobs" tax (sometimes called a "headquarters" tax). That is to say, the more property and payroll a manufacturer has in-State, the higher its tax relative to a predominately out-of-state manufacturer with similar New Jersey sales.

SSF tax reform eliminates this hidden “headquarters” tax for manufacturers by basing New Jersey manufacturer business taxes solely on New Jersey-based sales. No longer would a manufacturer headquartered in New Jersey be competitively disadvantaged because of its decision to locate in our State. SSF reform provides an incentive to retain and even expand operations in New Jersey.

Many competitor states have implemented this SSF reform, including New York, Pennsylvania, Connecticut, Massachusetts and Maryland.

COST

In 2001, the NJ Division of Taxation estimated that making SSF available to all businesses would reduce tax collections by a net \$62 million. There is no estimate for just manufacturers, but it probably would be no greater than \$30 million.

LEGISLATIVE HISTORY

SSF legislation for all businesses was introduced in 2000 and made it to the floor of both houses but was not acted on at the end of the legislative session. Currently, A-1449 was introduced on January 8, 2008 and referred to the Assembly Commerce and Economic Growth Committee.

CONTACT

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