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WHAT'S THE RUSH?

Costly Tax Changes Need More Deliberation

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With the stock market convulsing and financial news seemingly growing worse by the day, Governor Corzine and the New Jersey Legislature have put forward a number of proposals described as designed to ease the impact of the crisis on this state's wellbeing and stimulate economic activity.

Several of these initiatives involve making significant changes to the system under which New Jersey assesses taxes on businesses in the state—including some measures that would undo reforms implemented in the state's 2002 overhaul of corporate taxes.

In this atmosphere of emergency, some of the legislation is moving with less deliberation than might be expected of tax changes that, when fully implemented, would likely cost the state at least $400 million a year in lost revenue. That is in addition to declines in state sales and personal income tax revenue that New Jersey officials predict will result from the economic downturn.

Sparse information is available on who would end up paying more under these proposals and who would pay less. The potential effect on New Jersey's already crippled state finances is not fully understood. For these reasons it would seem to make sense to take a deep breath and examine the total impact of these moves before acting. What follows is an analysis of how some of the business tax proposals would likely play out, and some ideas for reform that New Jersey should consider, whether or not the tax changes are made.

WHAT'S ON THE TABLE

The names of various measures under consideration by the Legislature sound arcane—single sales; the throwout rule; regular place of business; net operating losses. What they have in common is that they have been proposed over the years by businesses with the goal of reducing the taxes they pay to the state.

Single Sales (A-2626 / S-2136)

The term describes the formula used to apportion state-level corporate business taxes among states that levy them (five states have no corporate business tax). The formula was created to solve for states the dilemma of how to fairly tax firms that operate in more than one state. Universally accepted principles are that the same income shouldn't be taxed twice, but neither should there be loopholes where income that should be taxed someplace isn't taxed anyplace.

In the 1950's, a model law was developed using a three-factor formula for states to follow. It averaged the share of a business's total **property** located in the state, total **payroll** for employees working in the state and total **sales** made to the state's residents. In other words, if 10 percent of a corporation's total property, payroll and sales are in New Jersey, the state taxes 10 percent of the total profits. Using the same formula, other states would determine what their tax should be. Theoretically, all of a corporation's income would be apportioned for tax purposes to the states in which it is earned.

Two decades ago, the three-factor formula was the still most common way states taxed the income of multi-state corporations. But in recent years the trend has been to reduce or eliminate the property and payroll factors and emphasize sales instead. The push for change came from businesses. Uniformity makes sense to states, but companies seeking lower taxes often prefer the lack of it. For reasons that will become clear, many companies feel they can gain by different states having different rules.

Today, only eight states and the District of Columbia use the three-factor formula and 37 weigh sales at either 50 percent or more. In 1995, New Jersey went to a modified system; still counting all three factors but giving double weight to sales.

Eighteen states have gone even further than double weighting. They either are phasing in or currently use a single factor formula, determining taxable income for state purposes *only* on where a company's sales are made. Increasing the weight of sales reduces taxes for companies with significant property and payroll in a state at the expense of out-of-state businesses that sell their products in the state but otherwise have little or no presence there. From a public policy standpoint there is a certain backwards logic to this. It gives a tax break to companies whose physical location in the state brings political clout, yet that physical presence means those firms actually require more of the government services that taxes fund, like roads and schools, police and fire protection and the court system. Single factor states are: Connecticut, Georgia, Illinois, Iowa, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Nebraska, New York, Oregon and Wisconsin. Colorado, Indiana, Minnesota and South Carolina are in the process of phasing it in.

An argument used in favor of single factor in New Jersey is that it will stimulate job creation and investment in the state. Though little evidence exists to support this contention, two significant results are beyond dispute. One is that companies with substantial property and payroll in New Jersey but relatively low sales would pay lower taxes to the state, while those with substantial sales but little property or payroll in the state pay more. The other is that, the way the math works out, the state will end up losing money.

The first result is why the corporate effort to get states to switch to single factor is highly selective. Individual businesses seek it in a limited number of states, not on a nationwide basis. While researching this issue a few years ago[1], NJPP found that on the same day that AT&T was supporting single sales factor in New Jersey it was opposing it in Oregon. Single factor would have raised AT&T's taxes in Oregon but reduced them in New Jersey.

The company's statements were revealing. In Oregon, where AT&T had high sales but a low physical presence, it said, "For every corporation that gets relief under this bill, two will pay higher taxes and it's because the relief given to a few corporations is so great. And even with them paying higher taxes, the total revenues from corporate income taxes goes down."

But in New Jersey, where AT&T had a strong physical presence and would benefit from a sales-only formula, it declared the change "would provide an incentive to foster and increase this presence in New Jersey [and] will stimulate the type of capital investment that leads to overall growth in the state's economy."

With taxes accounting for a relatively small share of any company's overhead, there is little reason to believe changing to single factor will promote corporate expansions in New Jersey. What happened in Massachusetts is illustrative. The state enacted a sales-only formula in 1995 after Raytheon Company, the state's largest industrial employer, threatened to close plants. After the change, Raytheon closed or sold several Massachusetts facilities and reduced its workforce by thousands.

Michael Mazerov, Senior Fellow at the Center for Budget and Policy Priorities in Washington, D.C., has written and testified extensively on the issue of single sales as an economic development tool. His findings include:

- Adopting a single sales factor formula is unlikely on its own to attract many businesses to a state because corporate managers understand that some of the tax savings associated with the formula could disappear as other states, where the company has sales but little other presence, switch to single factor.[2]

- Manufacturing employment grew between December 2001 and December 2007 in only three states and none of those states used single sales factor apportionment. Two of the five states with the most significant decline in manufacturing employment during that time were Maryland and Massachusetts—both single factor states—which leads to the conclusion that something other than the apportionment formula is driving these expansion decisions.[3]

How much money would New Jersey lose in return for lowering taxes on some companies, raising them for others and the somewhat vague promise of more jobs?

The bill now under consideration would limit the use of the single-factor formula to manufacturers as defined by the North American Industrial Classification System. And, while that sounds like a limitation that would minimize the state's revenue loss, in fact the definition covers a broad range of companies including petroleum refineries, candy makers and breweries as well as those that make glass, communications equipment, medicine, pesticides, toilet paper and protective packaging for food and other products. Companies headquartered in New Jersey that are among the potential beneficiaries of this bill are Automatic Data Processing, Becton Dickinson, Campbell Soup, Honeywell International, Johnson & Johnson, Merck, Schering-Plough, Sealed Air and Wyeth.

One difference between this bill and one considered in 2001 is that this version is more limited. While that might seem circumspect, it is interesting to note that the New Jersey Retail Merchants Association specifically asked to be exempt from single sales in 2001. Since most of New Jersey's retail chains are headquartered out of state, the bill would have been very costly to them with lots of sales in this state but not a lot of property or employees. Since the current bill only concerns manufacturers, the retail merchants have been silent.

Despite the requirement in New Jersey that every piece of legislation to raise or lower state revenues include a statement of financial impact, neither the state Department of the Treasury nor the Office of Legislative Services has provided information on this bill's cost. The New Jersey Business and Industry Association, which supports the measure, pegs the net revenue loss at $65 million, but that was based on an old estimate from the Division of Taxation using 1999 data. In 2001, the Assembly Commerce, Tourism, Gaming and Military and Veterans' Affairs Committee held a hearing on a similar bill during which the state Treasury testified that implementation of single factor would result in annual revenue loss to the state of as much as $250 million—then about 19 percent of total estimated corporate income tax collections for the fiscal year. This estimate included a $200 million revenue loss from implementing single sales apportionment if no corporations were exempted from the change and a $50 million revenue loss from eliminating the out-of-state office requirement.

Throwout Rule and Regular Place of Business (A-2722 / S-1874)

Both the throwout rule and the requirement that a company have a regular place of business in another state to apportion income to that state were part of the reforms made to the corporate business tax in 2002. The purpose of those reforms was to make it more difficult for New Jersey corporations to apportion their income to another state.

Something that many companies prize is what's known as "nowhere income." It's the money that comes from making sales in states that don't tax that income, either because the state has no business tax at all or the selling firm is exempt because, for example, it has no physical presence and sells by mail.

As part of the 2002 reforms, New Jersey enacted what is called a throwout rule to capture the nowhere income of companies that are located in this state and sell elsewhere. The rule assigns to New Jersey that income, allowing New Jersey to tax it. Without a throwout rule, that income would be untaxed by any state. Today, 27 states—including Maine, New Hampshire, Vermont and Rhode Island—have throwout or similar provisions.

At the same time New Jersey changed its method for dealing with nowhere income, it strengthened its rules on what is required to apportion income out of state. The terms requiring a "regular place of business" are important because if the requirements are too lax, it is difficult to enforce a throwout rule. New Jersey taxes 100 percent of a business' profits if a firm based in New Jersey has no regular place of business in any other state. Under New Jersey's current rule, it is not enough to simply sell products in another state; those products must be sold out of a "regular place of business," that is an actual office, factory, warehouse or other space that is regularly maintained, occupied and used to carry on business and at which at least one regular employee works.

The New Jersey Division of Taxation has estimated that enactment of this bill would reduce state revenues by approximately $150 million annually: $89 million from eliminating the throwout rule and $60 million from changing the requirement for maintaining a regular place of business.

Net Operating Loss Expansion (A-3124 / S-2130)

When a business sustains a net operating loss, tax law enables the loss to be carried forward for a set period of time. That means a portion of loss from previous years can be subtracted from the current year's taxable income, leading to lower taxes.

New Jersey's allowable period is seven years. Part of the initiative to reduce corporate business taxes would do so by expanding New Jersey's net operating loss carry forward period to 20 years. Again, the state will lose revenue if this initiative is enacted, though not until Fiscal Year 2018. This extension mirrors provisions in the federal tax code and 18 states, including New York, Pennsylvania, Connecticut and Delaware.

It is difficult to argue against what seems to be a common regional practice and as this is written the bill has passed both houses of the Legislature and is expected to be signed into law. But that does not negate the fact that this might not be an appropriate time for the state to adopt revenue losses, even in the future.

Each of these proposed changes would fundamentally change the way New Jersey taxes corporations. On its face, lowering taxes for a few businesses and raising them for many more—with the state ending up losing money in the process—would not seem to be good public policy. The resulting financial hole would reduce the state's ability to provide vital public services needed by both citizens and businesses, with no reason to believe there would be heightened economic activity to make up the difference.

THE BUSINESS CLIMATE

There is no question that New Jersey's economy is hurting. Job losses have been high. Attention must be paid to how the state can return to growth levels of the past.

But numbers are easier to find than reasons. A major part of the argument by supporters of the tax changes is that New Jersey is a poor place to do business. This stems in large measure from various analyses that suggest high tax rates lead to low growth without establishing a cause-and-effect relationship. One frequently used example is the Tax Foundation's annual State Business Tax Climate Index. Its ranking of New Jersey as 50th in the nation is often cited by business lobbyists as why changes are needed. Yet the Tax Foundation's own report makes a case for why the rankings have little meaning: "Clearly, there are many other non-tax factors that affect a state's overall business climate: its proximity to raw materials or transportation centers, the quality of its education system and the skill of its workforce…"[4]

In fact, there are other economic measures that show New Jersey in a completely different, far more positive light. One is the 2007 State New Economy Index compiled by The Information Technology and Innovation Foundation. It uses 26 indicators including "knowledge jobs," export activity and business startups to conclude that New Jersey ranks second in the U.S., up from sixth in 1999.[5]

Who is right and who is wrong is beyond the scope of this report. But it must be pointed out that there is no shortage of research saying that the current fixation on business tax levels as indicators of a state's economic condition is misplaced.

Robert Tannenwald, Senior Economist at the Federal Reserve Bank of Boston, found in his study of the impact of state and local taxes on business's capital spending that taxes had such a

small effect as to be statistically insignificant. As he said, "while tax characteristics may affect a state's competitiveness, policymakers should view with caution claims that changes in tax policy will dramatically improve their state's economy. Enhancing public services valued by firms may be a more effective economic development strategy."[6] Thus, good schools, an adequately trained work force, efficient mass transit, well maintained roads and access to higher education resources might prove more effective than rock-bottom taxes.

A major article in the *New England Economic Review* examined 33 separate studies of the relationship between state business tax burdens and private sector employment or investment. Nine of the studies concluded that having low business taxes had no statistically-significant impact on state economic development; 19 of the remaining 24 estimated that having a business tax burden 10 percent lower than that of the average state was associated with just a two percent greater number of manufacturing establishments.[7]

One probable reason for such conclusions is that all state and local taxes paid by corporations represent less than two percent of corporate expenses, and the state corporate income tax represents less than 10 percent of that two percent.[8] Some have found that while taxes are a statistically significant factor in business location and expansion decisions, the economic impact of those taxes tends to be small. One analysis of the role taxes play in economic development found labor force availability and quality to be more important in explaining differences across locations in economic activity.

How tax revenues are spent tends to be important, too, suggesting that high relative taxes might not deter economic growth if the money is used for services of value to business, like education and transportation infrastructure. The studies do make clear that a policy of cutting taxes to induce economic growth is not likely to be efficient or cost-effective in the general case. In specific cases, for example if a city's taxes have gotten far out of line or a state's industrial base is particularly sensitive to a specific tax, reductions in taxes may be warranted. But the evidence does not support the blanket use of tax incentives in the name of economic development.[9]

WHAT *SHOULD* BE ON THE TABLE

Businesses, like people, should pay their fair share of taxes. But it is difficult to have a meaningful debate over what a fair share is in the absence of important information on what corporations actually do pay.

Combined Reporting

Some companies have numerous subsidiaries or affiliates. Some states require all entities from the same company or related family of companies to file a single tax return that aggregates all of the entities' operations in the state. Such combined reporting makes it harder for multi-state corporations to shift income from place to place in ways that reduce tax liability.

Under combined reporting, corporations with common ownership and substantial inter-corporate transactions are required to put together profits from all related subsidiaries and only then determine what portion of those profits are taxable in that state.

New Jersey is not among the 20 states that require combined reporting, but that could change. The stimulus plan that Governor Corzine proposed in October directed the state Treasury to "immediately engage with major corporate business taxpayers to develop an appropriate strategy to move towards the so-called single sales factor method of tax liability computation and towards adoption of Unitary Combined Reporting." He added, "These changes will make tax collection more efficient and remove a tax disincentive to companies keeping their headquarters in New Jersey."

While the Governor's intent with regard to combined reporting is laudable, making it contingent on switching to single sales factor taxation downplays the importance of this reform all on its own. It should be the other way around: switching to single sales—if it were to happen at all—should not take place without New Jersey adopting combined reporting.

Without combined reporting, states like New Jersey must continually monitor millions of inter-company transactions, requiring substantial state resources both to keep track of them and adjudicate in court when problems are found. As tax shelters are closed, smart, well-paid tax attorneys and accountants constantly create new ones. Most of these shelters rely on compa-

nies' ability to shift their income among corporate units and among states. Combining these units places a significant obstacle in their path.

Combined reporting brings predictability and consistency to the corporate tax process. It would allow New Jersey auditors to piggyback on similar work in other states that require corporations to file combined returns. It also levels the playing field because local businesses today are more likely to have to pay taxes on all their profits than are large multi-state firms.

New Jersey's 2002 reforms stopped short of enacting combined reporting but empowered the director of the Division of Taxation to require combined reporting on a case-by-case basis if abusive tax practices were suspected. To date, though, no corporation has been required to file a combined report. And it is likely that any corporation required to do so under the current system would challenge the state in court, a time- and resource-consuming proposition for the government.

Full Disclosure

Little is publicly known about who pays business taxes in New Jersey. Not since 1989 has the Division of Taxation published information on corporate tax liability. We know that in 1987, 216,572 corporations paid $1.1 billion in corporate business taxes. We know also that 66 percent of them paid less than $100 a year. Just 1,468 corporations paid $100,000 or more in taxes and these companies paid 61 percent of the tax collected in that year. How much or little has changed since then?

Information of this nature is available for personal income taxes paid by New Jersey households. Each year the Division of Taxation publishes the *Statistics of Income* (SOI) report that provides data for discussion and debate. Because of this document, for tax year 2005, we know the following:

- Four percent of personal income tax returns paid nearly 48 percent of state personal income taxes;
- New Jersey exempted from income taxes over 400,000 joint tax returns making under $20,000 a year; and
- The average personal income tax rate in New Jersey was 5.4 percent.

None of this is possible to know in New Jersey for corporate tax returns. But that's not true in all states. California, for example, annually makes available extensive information about corporate taxes, including how many corporations are taxed; their net incomes and at what rate they are taxed; and which sectors pay the most taxes.

Not since the Fiscal Year 2003 budget has any information about corporate business taxes and credits been published in New Jersey. That budget disclosed that 77 percent of all corporations in New Jersey paid the statutory minimum tax of $200 and that business tax credits grew from $1.9 million in 1989 to nearly $88 million in 1998.

Knowing who pays the tax allows for debate on who *should* pay the tax. During legislative hearings on the business reform tax package in 2002, legislators and the public were stunned to hear that the Great Atlantic & Pacific Tea Company (A&P) had paid only $200 a year in tax in each of the previous two years while the owner of Pagano's IGA, a small supermarket in Bayonne, told legislators he paid $3,000 in taxes. As a result of these hearings, public consensus favored raising taxes on large companies like A&P and giving relief to smaller, less profitable businesses.

New Jersey's Business Tax Reform Act established the Corporate Business Tax Study Commission to analyze the 2002 reforms. The Commission's June 2004 report represents the only public analysis of these reforms. It was both limited in its scope and its ability to say much since it was prepared before accurate tax return data on the reforms was even available.

In 1984, a group of tax professionals focusing on the issue of worldwide income called for a federal law requiring multi-jurisdictional taxpayers to file with the IRS data that would include the taxpayer's liability in each state where it operates, as well as disclosure of the method used to calculate the liability. It would have created a national accounting database that would show how corporate taxable income gets apportioned across state lines. No such law was passed and New Jersey officials should push for it.

Some data on federal tax liability is available from 10K documents that firms must file with the Securities and Exchange Commission. Using this information, the nonprofit Institute on

Taxation and Economic Policy (ITEP) examined the U.S. profits and federal income taxes of 250 of the country's largest and most profitable corporations from 1996 to 1998 and updated that report in 2004 to look at 275 companies' profits and taxes from 2001 to 2003.

In the latter report, ITEP found:

- Although the federal tax code requires corporations to pay 35 percent of their profits in income taxes, only a small percentage of the 275 companies paid federal income taxes anywhere near that statutory tax rate.
- 82 of the 275 companies paid no federal income taxes or received a rebate in at least one year from 2001 to 2003.
- In 2003 alone, 46 companies paid no federal income taxes or got a rebate, while telling shareholders they earned U.S. pretax profits in 2003 of $42.6 billion.

Such research is impossible in New Jersey because business tax returns, like those filed by individuals, are confidential. To help make the case for tax reform in 2002, only the most basic information about taxes paid by New Jersey corporations could be provided. The only reason the public knows that the large A&P supermarket chain paid $200 in corporate taxes in 2000 and 2001 is because a company representative was asked at a public hearing how much tax the company paid. Much more information about the corporate business tax should be made public.

Unified Development Budget?

Erosion of corporate business tax receipts in New Jersey is partly due to the proliferation of corporate business tax credits. Supporters argue these are job creation tools; skeptics want proof. What started as $1.9 billion in credits to businesses in 1989 had grown by more than 4,600 percent to $87.7 billion by 1998. Unfortunately no public information exists for the past 10 years on who gets the credits; how much they get; what impact the credits have on business location or job creation; or how much those credits cost the state in lost taxes.

Tax credits provided to business take many forms, including: a jobs investment tax credit and a property tax credit for qualified investments in new or expanded business facilities resulting in new jobs; for investment in qualified equipment; for increased research activities; a tax benefit certificate transfer program to assist certain emerging companies; the carry forward of net operating losses under the corporate business tax for certain taxpayers; extension of the carry forward of research and development tax credit; the Neighborhood and Business Child Care Tax Incentive Program; Urban Enterprise Zone Credits; Research and Development Tax Credit; the Smart Moves for Business Programs Tax Credit; the Neighborhood and Business Child Care Tax Credit; and the Urban Transit Hub Tax Credit.

States such as Minnesota, Maine, Texas, Connecticut and West Virginia have enacted disclosure laws that require companies themselves to make public the value of subsidies they receive each year. Maine and Minnesota require that the companies disclose wages and benefits paid. Connecticut, Maine and Minnesota require the companies to disclose actual job creation and/or retention. Some of these states also have started to respond to subsidy abuse through "clawback" laws under which businesses are forced to give back tax breaks and subsidies if promised jobs do not materialize.

That's a lot to keep track of, and New Jersey needs to do a better job. That's why a 2007 state law required an annual Unified Development Budget to assess the use of state resources for economic development purposes. In one place it would list all relevant data on state spending, through appropriations and tax preferences, for economic development-related activities. The document has yet to be compiled.

Tax Expenditure and Fiscal Incidence Reporting

Unlike most states, New Jersey has no requirement for either a tax expenditure budget or a fiscal incidence report, two important tools for analyzing the extent and effectiveness of state spending. A tax expenditure report shows the value of all subsidies provided to businesses and individuals through the tax code; an incidence study shows who ultimately pays. While the state budget lists all direct spending, understanding the state's

complete financial picture is impossible without also knowing how much is spent through the tax code.

States that conduct careful examinations of how much they spend as a result of not collecting revenue continue to authorize billions of dollars in tax expenditures. But the information is highly valuable. Tax expenditure reports can provide a way to measure the financial benefits that are provided through the tax laws to individuals, businesses or sectors of the economy. This would help in assessing the fairness of the overall tax system as well as the value of particular programs. Without the information, the effectiveness of various state activities can be impossible to determine.

The corporate business tax in Fiscal Year 2009 is estimated to contribute $2.5 billion to the state's $32.5 billion budget. During budget deliberations in FY 2008, the Office of Revenue and Economic Analysis in the Division of Taxation developed a basic framework for a tax expenditure report. For the corporate business tax it identified 28 exclusions; the current tax changes being proposed would add to those exclusions.

It is important to know who pays this tax. Does the state collect the minimum amount required from 90 percent of the state's corporations with a small number of corporations paying most of the tax or is the tax spread more evenly throughout corporate taxpayers? Will every corporation see a change in the tax it owes or will a small number of corporations benefit from these changes? And if the state loses 20 percent of the corporate tax it collects, which programs will the state stop funding? These are the types of questions that should be addressed by a fiscal incidence report.

Corporate Compliance

The tax law changes being proposed would give the state Division of Taxation more work to do to guarantee proper corporate compliance, while in no way increasing its ability to do it. The state units that administer tax collection and compliance have lost a number of key personnel in the state's Early Retirement Program. The reality is that overworked, relatively low paid state employees are battling on a daily basis armies of corporate lawyers and accountants who provide their clients with increasingly sophisticated methods for avoiding taxes. The state should bolster staffing to meet the need.

CONCLUSION

Business tax law is a complex, intimidating subject in the best of times. Changes that are hard for lay persons to understand can mean huge adjustments to what businesses pay to support the government services and programs on which everyone relies. As described above, the potential revenue loss to the state is significant.

So it seems reasonable to ask, "what's the rush?" The legislative hearings on measures to cut corporate taxes have been filled with lobbyists in favor of any and all bills that would save their employers money. The claims that these changes will strengthen New Jersey's economy, make the state more competitive and attract new jobs are backed by far more emotion than research.

What is not being discussed in the State House is the likely extent to which these tax changes will result in the state having less money and, because of that, being able to do less of what it really takes to build an economy. Repairs to roads and other key transportation infrastructure; help for families to pay for college; investment in schools; urban revitalization: all of these activities are on the verge of being diminished by the precipitous actions of those who appear to put more value on the ephemeral "business climate" than on what has been shown over the years to bring growth and prosperity.

This time of economic turmoil is no time to push through a series of legislative blank checks in the name of improving the business climate or saving the state's economy, in the absence of hard evidence that tax cuts are the magic bullet for accomplishing either aim.

It would be sensible for legislators to demand expert analysis about the potential impact in terms of job-creation and whether businesses are likely to move to or stay in New Jersey, rather than base their votes on perception and politics. Before any action takes place which would cut business taxes, a comprehensive assessment of the impact on both large and small, in-state and multi-state businesses should take place.

New Jersey should require corporations to make public clear, detailed information on their taxes, including a straightforward statement of what they paid in state taxes and the reasons why

those taxes differed from the statutory 9 percent, 7.5 percent or 6.5 percent corporate tax rates now in effect in New Jersey.

Business tax law changes should not be made in a piecemeal way, one bill at a time, in the absence of a comprehensive analysis of who pays. The New Jersey Corporate Business Tax Study Commission's June 2004 report suggested many areas in need of additional study, including combined reporting. This should be undertaken.

Some of the corporate tax-cut bills being discussed have been amended so the revenue loss will not occur for several years. Some might see this as a gesture of fiscal responsibility; others might remember that among the reasons for New Jersey's chronically shaky state budget was the use in the 1990s of phase-in provisions for costly property tax relief programs. The phase-in provided a fiscally irresponsible way to cut sales and income taxes during the 1990s while at the same time creating future burdens on the state budget. Changing the law now for future years or phasing in the tax cuts creates a severe risk that New Jersey will again be setting itself up for financial problems in the future. A more sensible guideline: if we can't afford to lose the revenue now, we shouldn't cut the taxes now.

In the end, knowledge is better than pressure as a way to obtain good public policy outcomes.

ENDNOTES

[1] See *Single Factor, Double Trouble* by Mary E. Forsberg for a fuller explanation of single sales factor apportionment http://www.njpp.org/rpt_singlefactor.html.

[2] Michael Mazerov, *The "Single Sales Factor" Formula for State Corporate Taxes: A Boon to Economic Development or a Costly Giveaway?* Center on Budget and Policy Priorities, September 2005, pp. 39-40.

[3] U.S. Bureau of Labor Statistics data compiled by Michael Mazerov, Senior Fellow, Center on Budget and Policy Priorities.

[4] Joshua Barro, *2009 State Business Tax Climate Index*. The Tax Foundation, October 2008, Number 58.

[5] Robert D. Atkinson and Daniel K. Correa, *The 2007 State New Economy Index: Benchmarking Economic Transformation in the States*. February 2007.

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[8] Patrice E. Treubert, "Corporation Income Tax Returns, 2001," *Statistics of Income Bulletin* (Internal Revenue Service), Summer 2004, p. 138; Robert Cline, William Fox, Tom Neubig, and Andrew Phillips, *Total State and Local Business Taxes*, Ernst & Young, January 2004.

[9] Stephen T. Mark, Therese J. McGuire and Leslie E. Papke, "What Do We Know About the Effect of Taxes on Economic Development? Lessons from the Literature for the District of Columbia." *State Tax Notes*, August 25, 1997, pp. 508-509.

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