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Commentary

A Cheer and a Half for the Property Tax

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One bipartisan theme of this year's gubernatorial election will be that Something Must Be Done about the residential real property tax. As enthusiasm builds, however, it is worth making two cautionary points. First, the real property tax is a generally fair and efficient way to fund local government. Second, replacing it with another broad-based tax may well decrease the home rule that is such a prominent part of New Jersey's political culture.

From the earliest writers on economic theory, it has been understood that the value of unimproved land derives not from the owner's efforts, but from the land's natural characteristics and the surrounding social setting. The same is true in part of improvements. Two identical building lots, or two houses of the same design built on them, will have very different prices in different communities, depending on access to transportation, quality of schools, class and demographic make-up, and other social factors independent of the owner.

To the extent that it captures this social component of value, the residential real property tax is a fair way to tap household wealth created by the society for society's use. Except for elderly

people on fixed incomes, moreover, the location and value of a family residence more or less corresponds to the family's income and hence its capacity to pay. Because land is local and locality determines its worth, the value of real property is the form of wealth most easily accessible to local governments.

For that reason, the residential real property tax has been the fiscal foundation of home rule in New Jersey, a state with scores of municipalities that are not much more populous than incorporated neighborhoods. Suburban and rural New Jerseyans historically prefer that local resources be applied to local needs, and that government activity take place at a level where the people directly affected can keep an eye on it. The resulting inefficiency and duplication are the price they pay to be governed by their neighbors instead of from a remote city hall or county seat.

If New Jersey local governments are to depend less on residential real property taxes to meet the same level of expenditure, they must turn to other broad-based sources of revenue. There are three major possibilities: sales and excise taxes, an income tax and a wealth tax on personal property. A tax on intangible personal property poses serious problems of assessment, collection and apportionment compared with the real property tax. The administrative cost of an income or sales tax requires statewide or at least county-wide assessment and collection; locally determined income or sales tax rates for each of New Jersey's 566 municipalities

and 601 school districts would be unworkable.

Any system in which the state serves as tax collector and distributor for local governments will erode local fiscal and political independence. In theory, the state can collect such taxes and apportion them among the various municipalities. But the state can also change the allocation formula, keep some or all of the proceeds for its own treasury when it feels the need, or transfer resources from wealthier communities to poorer ones. *City of Camden v. Byrne*, 82 N.J. 133 (1980), held that the Legislature had absolute discretion not to appropriate tax revenues to local governments in the annual appropriation act, even though the tax statutes required the moneys to be allocated. The Legislature can also impose such conditions as it sees fit on how local governments spend state-raised funds.

A shift from local property taxes to allocated state taxes also decreases the political incentive for local governments to control their own spending. Politicians earn gratitude by spending money from the public treasury. They antagonize voters by levying and collecting taxes to fill it. The ideal situation for an elected official is to take the credit for spending money that some other politician, preferably far away and on a different election cycle, has taken the blame for raising. Money from Trenton feeds the worst impulses of mayors, council members and school boards. If it arrives, they can spend it without the pain of raising local taxes. If it doesn't,

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the blame lies in Trenton and not at home. Fiscal discipline requires that the local taxpayers and voters see a direct connection between what their municipality is spending and what it is costing them. State funding obscures that connection.

A shift away from residential property taxes to income or sales taxes may help the house-rich but cash-poor elderly whose appreciated home equity is out of proportion to their current fixed income. It would not relieve the broad-

er home-owning middle class of paying for the local government services it uses. We would all like someone else to pay for in taxes what the government spends on us, but the homeowner's desire to be somehow relieved of the cost of local schools, local public safety and local public works is an illusion. If the homeowner does not pay for these services by property tax, she will pay at the cash register through the sales tax or on April 15 through the income tax.

Shifting the support of local gov-

ernment away from the residential real property tax will centralize political control of raising and spending the cost of local government away from the localities and toward Trenton. It will decrease the political incentive to control the overall cost of local government. It will give the Legislature more discretion to redistribute wealth among classes and communities. It is doubtful that the supporters of property tax relief intend to undermine home rule, but that will be the result. ■