

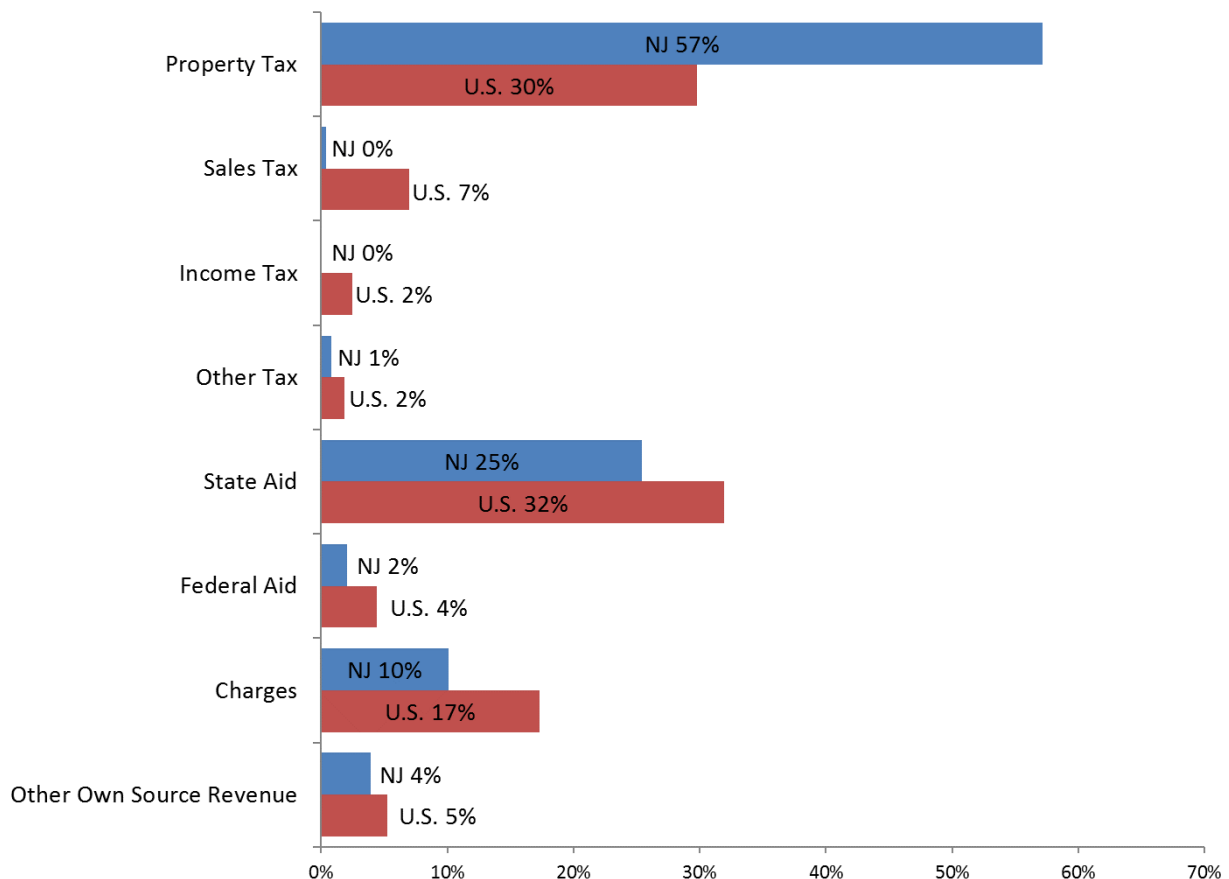
New Jersey

Highlights

New Jersey levies three primary taxes: a state-overseen but locally administered property tax, a broad-based personal income tax that is constitutionally dedicated for property tax relief to individuals and local governments, and a sales tax used to support state government operations.

The property tax is the only tax authorized for New Jersey’s local taxing districts and their principal source of funding. New Jersey local governments rely nearly twice as heavily on property taxes as a source of general revenue as do U.S. local governments on average (figure NJ-1).

Figure NJ-1
Sources of Local General Revenue, New Jersey and U.S., 2014



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

In 2013, New Jersey's property tax as a percentage of state and local revenue was the second highest in the country, second only to New Hampshire. New Jersey also ranks second among the states for property taxes per capita, first for property tax as a percentage of personal income, and first for the effective tax rate for a median value owner-occupied home (table NJ-1).

Table NJ-1
Selected New Jersey Property Tax Statistics, 2014¹

	New Jersey	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$3,069	\$1,464	2
Property tax percentage of personal income	5.3%	3.2%	2
Total property tax as percentage of state-local revenue	29.9.3%	16.9%	2
Median owner-occupied home value ²	\$315,900	\$178,600	5
Median real estate taxes paid for owner-occupied home ²	\$7,410	\$2,149	1
Effective tax rate, median owner-occupied home ³	2.3%	1.2%	1

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

New Jersey's property taxes are levied by its municipalities, counties, K-12 boards of education, and some 180 special-purpose fire districts. Property values are set by a municipally appointed assessor in each municipality. Municipal assessors report to a state-appointed county tax board that hears value appeals, calculates tax rates and apportionment ratios, and prepares county-wide assessment reports.

Assessors and county boards are overseen by the local property section of the State Division of Taxation. The division provides a range of administrative and data processing activities. The state's constitution is the basis for several policies that control property tax administration, the primary elements of which are that "property shall be assessed for taxation under general laws and by uniform rules" and "all real property...shall be assessed according to the same standard of value." In practice, the uniformity requirement means that properties are assessed without regard to differential tax rates or class-based assessment ratios.

Parcels are assessed at their market value when they enter the market. Generally, once assessed, individual residential parcels are taxed at that assessed value despite market changes, while noncommercial property values assessed using an income-based approach can change through annual reporting of property income.

The state constitution provides for several exceptions to the uniformity rule. One allows for a farmland assessment that evaluates productive farmlands, horticultural properties, and woodlands in excess of five acres that meet specific criteria in terms of their value as farmland. The constitution and related enabling laws also provide for tax exemptions for a wide range of properties, including government, religious, and not-for-profit entities.

Property tax collection is administered at the municipal level by a municipal tax collector. Once annual tax rates (set at a rate per \$100 of assessed value) are set by the county board of taxation (based on levies adopted by the budgets of each applicable taxing district each spring), the collector produces tax bills for all parcels.

There is very limited taxation of personal property. Personal property of petroleum refineries is generally taxable; and business tangible personal property, except for inventories, that is used for local exchange telephone systems is also taxable.

Limits on Property Taxation

Taxing districts are subject to two limits on property taxation. The first, the appropriation cap in effect since 1977, is a type of revenue/expenditure limit. Under this cap, counties and municipalities are prohibited from increasing their budgets by more than 2.5 percent over those of the prior year or by the increase in the cost of living, whichever is less. Override is by a referendum, up to a 3.5 percent increase.

The second limit is a property tax levy cap. County and municipal government property tax levies and property tax levies for school district general funds can increase by no more than 2 percent over the prior year. Spending in excess of the limit requires 60 percent voter approval. Waivers for certain extraordinary costs may be authorized by the local finance board in the state's Department of Community Affairs.

For municipalities, the levy cap is in addition to the appropriation cap; while for counties, the limit is the lower of the levy cap and the appropriation cap.

Property Tax Relief and Incentives

The New Jersey Property Tax Reimbursement (Senior Freeze) Program refunds eligible senior citizens' and disabled persons' property taxes or mobile home park site fee increases on their principal residence over a base year (the year in which the applicant first applies). Eligibility is generally restricted to households in which the owner is 65 years or older, has lived in New Jersey for ten consecutive years, has owned and lived in the subject home for the previous three years, has paid his or her property taxes in full, and did not exceed the program's income limits (i.e., \$70,000 in 2014).

The Homestead Benefit Program provides property tax relief to eligible homeowners and tenants. To receive a 2015 homestead benefit, a household's New Jersey gross income could not have exceeded the following limits: (1) \$150,000 for homeowners who are 65 or older, blind, or disabled; or (2) \$75,000 for homeowners under 65 who are neither blind nor disabled. The owner must have paid his or her property taxes for the year in which the application was made, and the house must be the homeowner's principal residence.

An income property tax deduction/credit allows homeowners and tenants who pay property taxes (either directly or through their rent) on their New Jersey principal residence to possibly qualify for either a deduction or a refundable credit on their state resident income tax return. Homeowners and tenants may be eligible for a deduction or credit even if they are not eligible for the Homestead Benefit Program. The tax benefit varies depending on the homeowners'/tenants' taxable income, the amount of their property taxes or rent, and their filing status. For tenants, 18 percent of rent paid during the year is considered property taxes paid.

The state constitution currently provides a deduction on the property tax bill for eligible income-restricted senior citizens and veterans. The deduction is reimbursed to the municipality by the state.

Businesses in designated redevelopment areas are permitted to ask the municipality to make site-based improvements and to pledge the property's incremental property tax value to pay for the capital costs (redevelopment area development financing). A separate program parallels a state economic development incentive program and pledges property tax increments for businesses that expand employment or relocate to a municipality in need of economic development. Neither program is widely used. Another economic development provision allows short-term tax abatements and long-term exemptions (accompanied by a payment in lieu of taxes) for blighted property as part of municipally determined redevelopment or rehabilitation districts.

Table NJ-2

Property Tax Features of State Governments, United States, 2015

Feature	New Jersey	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

New Jersey’s reliance on the local property tax dates back to colonial days; and for most taxing districts, property taxation remains the primary source of funding municipal and county services. For K–12 boards of education, however, the story is different. Consistent with court challenges in other states, a series of state constitutional challenges concluded that the reliance on property taxes to fund local education violated the constitutional requirement (dating back to the 1870’s) that the state provide a system of “thorough and efficient education.”

Known as the *Abbott* line of cases, this litigation spans four decades and is still an issue today. The initial findings in the mid-70s led to the imposition of the personal income tax and the constitutional requirement that the collections be used for property tax relief.

Stemming from school funding litigation and the creation of the income tax in 1977, legislation imposed appropriation caps on municipalities and schools and a levy cap on counties. The caps were initially based on a fixed percentage. Over time, they were modified to a variable percentage, then back to a fixed percentage; they were also subject to changes in exemptions.

In 2007, as part of the state’s response to the Great Recession, a more or less uniform property tax levy cap was imposed on all taxing districts. In this case, it was a 4 percent cap, subject to some 14 exceptions. This was modified in 2010 to a 2 percent cap with the number of exceptions reduced to four.

Recent Developments

There have been two important recent New Jersey cases regarding property tax exemption of nonprofits. In 2015, in *Morristown Memorial Hospital v. Town of Morristown*, Tax Court Judge Vito L. Bianco ruled that Morristown Hospital failed to qualify for property tax exemption “because the “subject Property [was] being used substantially for profit”” (Collins and Ross 2017). This case led to a wave of litigation and efforts, so far unsuccessful, to resolve the issue in the state legislature (Gialanella 2017). A second 2015 lawsuit, *Fields v. Trustees of Princeton University*, challenged the tax-exempt status of Princeton University. This case was settled out of court. “...[B]ecause Princeton chose to settle, the underlying issue of the nonprofit status of large research universities with extensive revenue generation capabilities remains unresolved in New Jersey” (Collins and Ross 2017).

Due to the failure of several county boards to act on their own, in 2016 the New Jersey Division of Taxation ordered several municipalities to undergo full revaluations. This was the first time in many years that the state exercised its authority in this way. “The 1947 State Constitution requires all property taxes to be assessed uniformly. Yet, certain municipalities in New Jersey have failed to update assessments for decades” (New Jersey Department of the Treasury 2017). Altogether 10 towns were forced to conduct property tax revaluations, some by the New Jersey Division of Taxation, and others by their respective county tax boards.

Resources

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