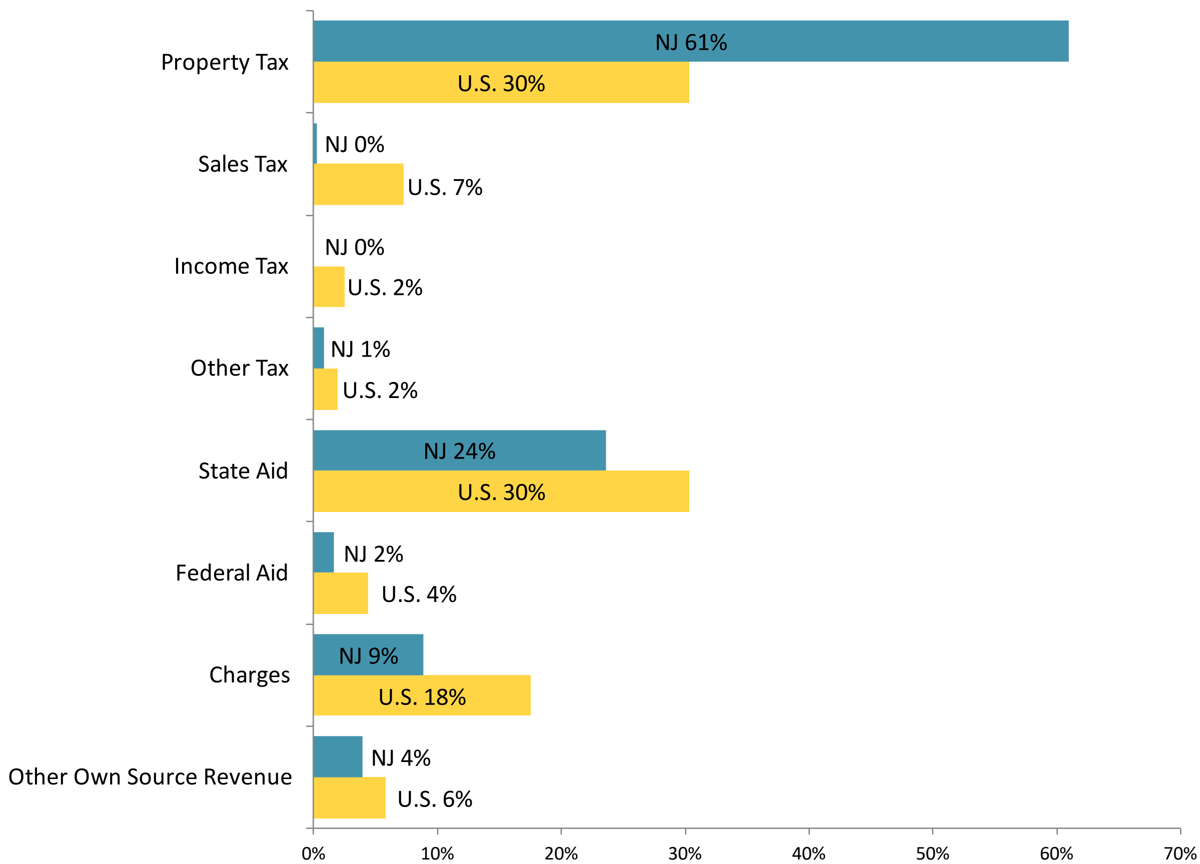
New Jersey

Highlights

New Jersey levies three primary taxes: a state-overseen but locally administered property tax, a broad-based personal income tax that is constitutionally designated 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 is their principal source of funding. New Jersey local governments rely 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., 2020



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

Property Tax Reliance

In 2020, 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 ranks second among the states for property taxes per capita, fourth among the states for property tax as a percentage of personal income, and first for the effective tax rate on a median value owner-occupied home (table NJ-1).

Table NJ-1
Selected New Jersey Property Tax Statistics, 2020[1]

	New Jersey	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$3,431	$1,810	*2*
Property tax percentage of personal income	4.9%	3.1%	*4*
Total property tax as percentage of state-local revenue	29.1%	16.6%	*2*
Median owner-occupied home value[2]	$343,500	$229,800	*7*
Median real estate taxes paid for owner-occupied home[2]	$8,489	$2,551	*1*
Effective tax rate, median owner-occupied home[3]	2.5%	1.1%	*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 2016–2020.

[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 (table NJ-2). 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.

The state constitution provides for several exceptions to the uniformity rule. One allows for 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; 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 (Significant Features of the Property Tax).

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 10 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 ($92,969 in 2020) (Significant Features of the Property Tax).

The Affordable New Jersey Communities for Homeowners and Renters (ANCHOR) program replaced the Homestead Benefit Program beginning with the 2022 application year (2019 tax year). Like the Homestead Benefit Program, ANCHOR provides property tax relief to eligible homeowners and tenants.

To receive a 2019 homestead benefit, a household's New Jersey gross income could not have exceeded the following limits: (1) $250,000 for homeowners; or (2) $$150,000 for tenants. Homeowner benefit amounts vary by income. The owner must have paid property taxes for the year in which the application was made, and the house must be the homeowner's principal residence. Renters must be named on a lease or rental agreement and must rent a property that was subject to property taxes (New Jersey Division of Taxation).

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 income-eligible senior citizens, disabled residents, and veterans. The deduction is reimbursed to the municipality by the state. Qualifying disabled veterans are eligible for up to a full exemption of property taxes on their primary residence.

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.

In 2021, Governor Phil Murphy signed Assembly Bill 4806 into law, authorizing New Jersey municipalities to establish an innovative business-funded residential property tax incentive program for taxpayers who shop locally. Some municipalities had programs in place before the law was passed. In these localities, homeowners are awarded for shopping at local retailers. They can receive a reduction in their property tax bill or even a rebate check in the case of shoppers who live in a different locality. Under one such program in Marlboro, New Jersey, businesses can offer a property tax reward equal to between 1 and 12 percent of each purchase (Marcus 2021).

Table NJ-2
New Jersey Property Tax Features, 2021

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	17
Circuit breaker property tax relief program	Yes	31

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; for most taxing districts, property taxation remains the primary source of funding for 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 1870s) 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. The cap limits increases in general fund levies to a 2 percent increase over the prior year's budget with adjustments for school districts based on enrollment. Voters may override the limit with a 60 percent majority (Significant Features of the Property Tax).

In 2008, New Jersey enacted the School Funding Reform Act of 2008, which increased state aid to every district with increases ranging from 2 percent to 20 percent. In 2009, the New Jersey Supreme Court ruled the new education funding system satisfied the state's constitutional requirement that the state provide "a thorough and efficient education." In 2011, the *Abbott* plaintiffs asked the court to block education aid cuts passed as part of the state's 2010–2011 budget. In 2011, the court demanded the state provide full funding for the *Abbott* districts in fiscal year 2012. In 2017, the court subsequently denied Governor Chris Christie's request to freeze state aid to allow the state to develop a new school funding formula (SchoolFunding.Info). In July 2018, New Jersey enacted compromise legislation to overhaul the School Funding Reform Act of 2008, which increased state aid by over $1 billion over seven years and shifted aid to school districts with growing student populations and higher shares of needy students. While most districts saw funding increase under the plan, aid reductions to "overfunded" districts where student population had declined or property tax bases had grown were to be phased in over seven years. Some districts, including former *Abbott* districts, were granted authority to exceed the 2 percent levy limit in order to backfill state aid reductions (Racioppi and Pugliese 2018).

There have been two important recent New Jersey cases regarding property tax exemption of nonprofits. In 2015, in *AHS Hosp. Corp. v. Town of Morristown, Corp.*, New Jersey 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 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). In 2021, New Jersey enacted a law permitting tax exemption for nonprofit hospitals including those that lease to for-profit organizations and establishing a per-bed community service contribution (A.B. 1135 of 2021).

Recent Developments

The Tax Cuts and Jobs Act of 2017 capped the federal income tax deduction for state and local taxes (SALT) at $10,000. In 2018, New Jersey joined Connecticut, Maryland, and New York in a legal challenge to the SALT cap, arguing it interfered with state sovereignty and harmed the plaintiff states. The federal government asked the court to dismiss the lawsuit (Civil Action No. 18-cv-6427). A U.S. District Court judge dismissed the lawsuit in September 2020, finding that "the states have cited no constitutional principle that would bar Congress from exercising its otherwise plenary power to impose an income tax without a limitless SALT deduction" (Reitmeyer 2019). The Second Circuit upheld the District Court ruling in October 2021. In 2022, The U.S. Supreme Court declined to review the Second Circuit opinion as requested by New Jersey and the other plaintiff states (Muse 2022). The average amount of the deduction claimed by New Jersey taxpayers in 2015 was $18,092—80 percent higher than the new limit (Tax Policy Center 2017).

Governor Phil Murphy signed a law in 2018 to permit local governments to create charitable funds to which taxpayers could donate and receive a 90 percent tax credit against their property tax liability, which was thwarted by IRS rules (IR 2018-172) (Rosenthal and Yang 2018). New Jersey passed workaround legislation in 2020 to shield owners of pass-through businesses from the effect of the cap by reclassifying income tax payments by those business owners as "elective entity-level taxes," which are deductible since the cap does not apply to businesses. In 2020, the IRS issued proposed rules to permit such an arrangement (Walczak 2020). New Jersey broadened the 2020 workaround law to include out-of-state income that would be taxable under the state's gross income tax and allowed pass-through entities to apply overpayments to a subsequent tax year (Valdez 2022).

In 2021, the legislature passed Assembly Bill 1135 to resolve issues raised in the Morristown Medical Center (formerly AHS Hospital Corp. d/b/a/ Morristown Memorial Hospital) case over exemption of property owned by nonprofit hospitals but used for for-profit activities. In a 2015 ruling, the court ruled the medical center was not entitled to a charitable exemption on property used for for-profit activities and left the responsibility on the legislature to clarify the legal application of the exemption. AB 1135 reinstated the charitable tax exemption for nonprofit hospitals including property those hospitals lease to for-profit organizations and established a per-bed fee as a "community service contribution" (Devine 2021). Four municipalities challenged the new law, but the Superior Court of New Jersey for Mercer County dismissed the complaint in July 2022, upholding the new law (Talwani 2022).

New Jersey overhauled its Homestead Benefit circuit breaker program in 2022 with legislation backed by Governor Phil Murphy that expanded eligibility to renters, increased income limits for homeowners, and increased and restructured benefits and payments. The redesigned program, estimated to cost $2 billion, is called the Affordable New Jersey Communities for Homeowners and Renters (ANCHOR). The program provides a flat benefit of $1,500 for homeowners with income up to $150,000 and $1,000 for homeowners with income up to $250,000. Like the circuit breaker program it replaces, ANCHOR pays out benefits two years after the tax year. Homeowners who owned or rented and met the income criteria in 2019 received a direct rebate in Spring 2023 (Mueller 2022; New Jersey Division of Taxation 2022). In the first year of the program, 1.7 million residents applied (Office of Governor Phil Murphy 2023).

Beginning in 2026, most New Jersey homeowners and renters age 65 and older will qualify for a 50 percent reduction of their property taxes (or rent equivalent). Dubbed StayNJ, the program enacted as part of New Jersey's $54.5 billion fiscal year 2024 budget will cost an estimated $1.3 billion per year once it takes effect. Seniors over age 65 are eligible as long as their income does not exceed $500,000; the maximum benefit is $6,500 (Johnson 2023; Tulley 2023).

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