



**New Jersey Chamber of Commerce
Tax Reform Package to Spur Economic Growth**

August 2007

The New Jersey State Chamber of Commerce Tax Council has formulated policies to stimulate economic growth in our state. Recognizing that our tax climate impacts our state's economy, the Council has drafted legislation to reform New Jersey's corporate business tax laws and foster a positive business climate.

New Jersey has significant strengths that make us competitive, including an educated and skilled workforce, key location and first-rate research and development institutions. We are a major economic hub with 20 percent of Fortune 500 companies operating their headquarters in or near the state. Our gross state product, income and education levels are among the highest in the nation. We are also a national leader in the pharmaceutical, financial services and telecommunications sectors.

Known as the "Medicine Chest of the World," New Jersey is a global center for pharmaceutical and medical technology companies. These companies contribute \$27 billion annually to the state's economy, and employ over 60,000 people. These jobs are among the highest paying, with annual compensation averaging \$100,000. In addition to direct employment, this industry contributes significantly to the creation of additional jobs in other industries, and leads the state in capital construction investment.

The financial services industry has a significant economic impact on New Jersey. This industry represents the second largest employment sector in the state, and the fourth largest sector in job creation. Financial services employment is well paying, averaging \$79,235 in 2004.

Telecommunications is one of the fastest growing industries in New Jersey. We rank in the top ten states for the number of telecommunications patents issued annually. The telecommunications industry employs tens of thousands in the state and creates new jobs every day. These jobs are well paying, high-tech jobs, and the kind of jobs that we want in New Jersey.

It is vital that we keep growing jobs in our key industry sectors. However, recent economic studies show that many of New Jersey's current business taxes are out of line with the majority of other states, creating a competitive disadvantage for the state and making job growth and economic improvement challenging.

New Jersey's business tax policies impact the way that our state is perceived in the national and global marketplace. Our state's leaders are working hard to grow high paying jobs, retain current businesses and bring new companies to the state. Our corporate

business tax laws should reflect these efforts. Reforming our business tax climate is vital to retaining businesses and attracting capital investment.

TAX REFORM RECOMMENDATIONS TO GROW OUR ECONOMY

- **APPORTIONMENT REFORM**

- **Regular Place of Business**

- **Problem:** New Jersey is the only state that requires a multistate corporation operating in a single location to maintain a “regular place of business” outside the state in order to allocate its income on the same basis as corporations with multiple business locations.

- **Solution:** Repeal the regular place of business requirement as recommended by the New Jersey State and Local Expenditure and Revenue Policy Commission. Eliminating this provision would go along way toward increasing the fairness of New Jersey’s tax policies.

- **Throwout Rule**

- **Problem:** New Jersey is one of only two states that utilize the “throwout rule,” that requires a New Jersey company, when calculating its corporate business tax liability, to include income earned in another state if that state chooses not to tax or is unable to tax the income.

- **Solution:** Repeal the throwout rule as recommended by the New Jersey Corporate Business Tax Study Commission, which called it “inconsistent with the basic premise of fair apportionment.” More equitable tax policies would enhance New Jersey’s reputation in the business community.

- **Single Sales Factor**

- **Problem:** New Jersey currently determines the portion of a company’s income that is subject to New Jersey tax based on the company’s property, payroll and sales in New Jersey. The presence of property and payroll in the allocation factor creates a disincentive for capital investment and job creation in New Jersey.

- **Solution:** Phase in a single sales factor formula to encourage investment in New Jersey. There are seventeen states, including New Jersey’s neighbors that either currently use or are phasing in a single sales factor allocation formula. If New Jersey implements a single sales factor immediately, it will still be ahead of the majority of states. Such a change would allow New Jersey to gain a competitive advantage.

- **ADD-BACK**

- **Problem:** New Jersey’s requirement that a company “add-back” deductions taken on royalty and interest payments to a related company is overly broad as compared to other states and punishes legitimate business practices, adding to our negative business climate.

- **Solution:** Amend the add-back requirements for royalty payments made between related companies, and repeal the add-back requirements for interest payments made between related companies. Such changes would more precisely target the types of abusive transactions that these requirements were intended to address. These adjustments would also bring New Jersey in line with other states and improve our business climate.

- **NET OPERATING LOSS**

