Property Tax in New Jersey

A SHORT AND SIMPLE GLIMPSE AT THE PROPERTY TAX IN NEW JERSEY

“Look at this bill. How come my property taxes are so high?”

In order to answer that question, you need to consider all the factors that go into the determination of your property tax liability and how they can change, from year to year.

Your tax bill is determined by six basic factors:

1. The market value of the property that you own.
2. The cost of municipal, county programs and services.
3. The cost of your local public schools.
4. The availability of other revenues to cover those costs.
5. The extent of the presence of property exempions in your municipality.
6. The total value of all the taxable properties in your municipality.

If your property is to become more valuable due to an event such as structural additions or renovations, and all other properties remained unchanged, your tax liability (bill) grows bigger.

The increase in value beyond average appreciation means that your property represents a larger portion of the value of the municipality and therefore it is assigned a larger portion of the amount to be raised through property taxation. If it costs more to deliver local government services and programs and to educate our public school kids or if the State and Federal governments impose new demands on local institutions and/or reduce funding back to local government, all else being equal, your tax bill gets bigger. If your local governments and school districts cannot count on other revenues keeping pace with inflation, all else being equal, your tax bill gets bigger.

If the State exempirs certain classes of property from local taxation or if previously taxable property is now being used for property tax exempirs purposes, all else being equal, your tax bill gets bigger.

And, if a large local industrial operation relocates or a big commercial business closes, all else being equal, your tax bill gets bigger.

All else rarely remains equal. In fact, much more often than not, the things that we want to stay level, in order to keep property taxes down, go up. And the things we want to go up, stay level. To better understand New Jersey property taxes, we set out the following:

The Public Laws of 1861 brought to New Jersey the goals of uniform assessments based on actual value and a general property tax. This meant that all property classes were to be treated the same for the purposes of taxation. In 1873 the concept of uniform assessments was enshrined in the State Constitution. Our Courts held that the amendment, however, permitted the classification of property for tax purposes and the exemption of certain property classes from taxation. A long period of the erosion of the "general property tax" concept followed.

In 1884, a State Board of Assessors was created to assess the value of railroad and canal property. The State, thereby, inserted itself into the local property tax assessment process.

As a local tax, this levy is, generally, locally assessed and collected for the support of municipal, county, and school district governments. It is not supported at the State level. The State that has imposed on local units. All taxable property is assessed a value—assessed by local assessors in each municipality. An assessment is given as "taxable value," except in the case of qualified farm land, which is specially valued. The amount of the tax is annually determined each year, in every municipality, to provide sufficient revenues to meet the budgetary expenditures of municipalities, counties and school districts, minus revenue available from other sources.

Each school district, county governing bodies, and county governing bodies notify the County Tax Boards of their budgetary requirements through submission of adopted budgets. The various levies are totaled to represent the "amount to be raised by taxation" for each taxing jurisdiction.

The tax levy is divided by the total assessed value of all taxable property within the municipality—or the tax base— to determine the general tax rate. The tax rate is then applied to the assessed value of each individual parcel of property to determine the property owner's tax liability. Local budgets, assessed value and the availability of other revenues, then, are the prime determinants of each taxpayer's burden. The rate is annually adjusted to account for these factors. Because of this, you will see your tax rate referred to as a "residual tax."

PROPERTY TAX EXEMPTIONS

Intangible personal property was exempted from the tax base in 1945. Our State's 1947 Constitution contains the famous "uniformity clause," which states that:

"Property shall be assessed for taxation under general laws and by uniform rules. All real property assessed and taxed locally by the State for assessment and payment to taxing districts shall be assessed according to the same standard of value, except as otherwise permitted here, and such property shall be taxed at the general tax rate of the taxing district in which the property is situated, for the use of such taxing district."

This section was based on an 1873 amendment to New Jersey's 1844 Constitution. And the next phrase similarly "grandfathered" all property exemptions "validly granted" under the 1844 Constitution — "and now in existence." But it subjected those exemptions to future legislative amendment or repeal, "except those exemptions which relate to religious, educational, charitable, or cemetery purposes." Further, it granted the legislature the power to enact or repeal other exemptions "only by general law." The Constitution also allowed the legislature to permit municipalities to grant exemptions or abatements in areas in need of redevelopment and rehabilitation.

In 1963 the Constitutional property tax deduction for veterans who served in time of war or emergency was extended to widows of those who died in service. In 1966 an Amendment was approved which allowed a property tax deduction for senior citizens. In 1963 the Constitution was amended to permit the assessment of farmland at its fair market value for agricultural purposes.
As early as 1799 all townships assessed were directed by law to equalize assessments at an annual meeting in order to fairly spread the cost of county government. Various other administrative devices to achieve the same purpose required the equalization of real property which was apparently with little success in 1906 local board of taxation were established having equalization as one of their principal responsibilities. Nevertheless, real equalization seldom, if ever, was obtained. Equalization was not a part of the plan to keep his assessments low, for the lowest rate at which he assessed the lower proportion of the cost of county government which his taxing district had to pay. This became known as "competing under assessment". Under the twentieth century perhaps a better plan for competitive tax assessment under-assessment was introduced by the formula known as the distribution of taxes paid to local school districts. The formula granted a larger amount of State aid to districts with low assessed valuations. Under assessment became even more competitive and assessments, in most cases, dropped below the actual true value level. In the mid-1950s the Legislature empowered the Director of the Division of Taxation to determine the ratio of aggregate assessed to aggregate true value of real estate in every taxing district in New Jersey. Not long after the Director of the Division of Taxation implemented the "assessment-sales ratio program", which is the study of real property sales taxes to the properties assessment to determine what percentage the assessment is relative to the properties market value. The New Jersey Supreme Court issued county boards of taxation to take official notice of the Director's aggregate assessed to aggregate true value ratios in their equalization functions.

Equalization as an individual property within a municipality is an ongoing function. It is an important concern since it is aimed at stimulating a continuous effort towards updating each individual parcel of property taxes its share of the property tax burden. Government property assessment professionals exercise this function in many ways, including systematically studying and updating assessments by sales and comparability of assessed values calculated from sales occurring in that municipality, and ordering municipalities to revalue or to reassess based on the results of statistical analysis on a county board of taxation may cause the reassessment of property by the on their own initiative, taking account of new and changing assessments to ensure a more equitable basis. This is done to promote equalization among individual parcels of taxable property in a municipality. "Equalization in the aggregate" is another way of saying equalization among municipalities within a county. At the present time the equalization program is conducted for two major purposes: the distribution of State school aid, and use by the county board of taxation in apportionment of the costs of county government and of school districts covering more than one taxing district. The principal justification for this procedure is in determining the aggregate true value of all real property in each of the small taxing districts. The sales assessments ratio program involves a comparison of the sales prices of parcels of real property which have been sold with the assessed values of those properties. The object of the program is to discover at what value real property is being sold in each municipality within the time frame of a fiscal year (July 1 to June 30). Once this ratio is determined the aggregate taxable value of real property in a municipality may be raised to true value through use of the ratio so determined. The aggregate true value of real property together with the value of the various intangibles included in sale and the assessed value of locally assessed personal property is known as the "equivalent ratio", Equalized value is used as a measure of the weight of the taxing district. As a matter of law, a lower weight is the sole factor on that its proportionate share of county taxes is determined. Prior to the 2008 recession the problem had been that certain sectors of the economy were prospering, and others were experiencing economic distress. Another issue is that appreciation experienced in parts of a taxing district, such as the waterfront or the business district, can outpace other parts of the taxing district. Over time the disparity can become legally impermissible. The correction of this disparity within the district by means of a district-wide revaluation often leads to huge shifts in tax dollars. Cynical of the motives of the revaluation process, people often ask "what do we do with all of the EXTRA money?" Fortunately, there is no EXTRA money, for every dollar that someone pays in additional tax, there is a person within the district paying a dollar less in tax. Through the reassessment of all properties to their market value, the scales become balanced, and tax burdens are accurately reassessed. The assessor is responsible for tracking the ownership and use of each individual parcel, and for providing this information to the rest of the municipal structure. As such, the assessor's records provide the foundation for all other municipal functions. All municipal functions including building permits, planning/ zoning board applications, code enforcement, engineering, are driven by the block and lot parcel identifiers established and maintained by the local assessor.

**OTHER REVENUES**

There once was a time when municipalities with direct access to a number of revenue sources aside from the general property tax, but in 1966, the State became the collection agent for property taxes on Class II Republican and non-Republican properties. This created a significant problem in the state's municipalities, which had to hold municipalities harmless, by annual appropriation. This continued until 1970, at which time the collection, the State pledged to return the revenues to local government. In 1970, the Financial Business Tax, which had formerly been equally divided between the host municipality and the host county, was doubled, and the new revenue division was 50% for the State, 25% for the host county and 25% for the host municipality. In 1980, major changes in Public Utility Gross Receipts and Franchise Tax enactments, but the State promised, once again, to return these revenues to local government. That promise was soon forgotten. In 1982, the Governor then in office used the item veto of the State's Annual Appropriations Act (for FY 1983), to shut down the Department of Public Utility Gross Receipts and Franchise Tax funding from the appropriation intended for municipalities, and to use the funds as a "Bridge Fund" and not pay property tax refunds. The then Assembly Speaker and the then Senate President went to bat for our property taxpayers. This skirmish was challenged in Court, but in the case of Garber v. Keen, the State Supreme Court sanctioned this practice. Throughout the 90's and into the 00's, every State Budget featured an annual diversion of some of the funding dedicated to permanent statutes to municipal property tax relief, and the use of that funding for different state purposes. So the State's share of the monies that municipalities receive from the State's "Excess Receipts Property Tax Relief and as Consolidated Municipal Property Tax Relief Aid are only a partial replacement for funds that were originally direct sources of municipal revenue. Municipalities originally collected, for example, Public Utility Gross Receipts and Franchise Taxes, Business Person Property Income and State and County Sales and Local Property Taxes. These revenues were intended for municipal use from their beginning. When the State, at the request and for the convenience of the taxing businesses, became the collection agent for these taxes, it pledged to redistribute the funds back to local governments. So, from our perspective, these do not constitute new "aid" from the Treasurer of New Jersey. Instead, we see these as local revenues, temporarily displaced. In the 1990s, legislators in both parties and in both Houses recognized the fact that increases in population, prices, wages and employee benefits increases over which mayors and governing bodies have little, if any, control -- erode the ability of local officials to keep a lid on property taxes with "local funding." Appreciating that fact, they put taxes on the ballots that were supposed to preserve the property tax relief benefits of the most significant of these programs into the future. For the past decade, however, the Legislature has decided that it could not honor its statutory commitment to full municipal property tax relief funding. With the passage of this past year's budget, over these ten years the State has denied local property taxpayers, statewide, over $1.5 billion of relief. **LOCAL GOVERNMENT COSTS**

The Division of Local Government Services in the State's Department of Community Affairs, uses a nationally recognized standard to gauge the increasing costs of local government programs and services. This implicit Price Deflator measures the impact of inflation on local budgets, just as the Cost of Living Index measures its impact on family budgets. From September, 2000 to September, 2012, the costs of local government increased by 44.3%. For several years during the last decade the State provided municipal property tax relief programs, but the impact of inflation on local budgets, just as the Cost of Living Index measures its impact on family budgets. From September, 2000 to September, 2012, the costs of local government increased by 44.3%. For several years during the last decade the State provided municipal property tax relief programs, but the impact of inflation on local budgets, just as the Cost of Living Index measures its impact on family budgets.