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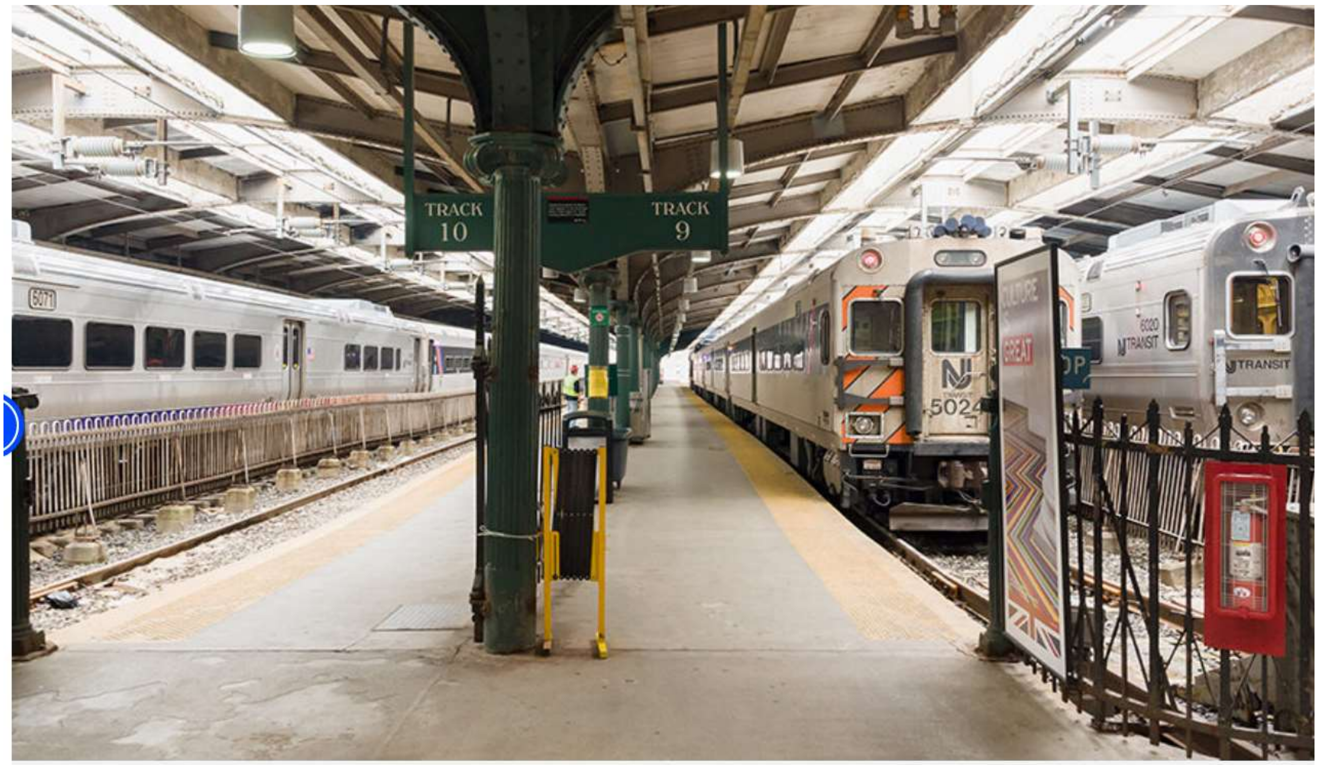


Gov. Phil Murphy's proposed 2.5% corporate transit fee on the state's most profitable businesses would serve as a funding source for NJ Transit, which is facing a fiscal cliff. - DEPOSIT PHOTOS/2012 FILE PHOTO

NJ execs: Corporate transit fee could force some firms to flee

Matthew Fazelpoor//May 13, 2024

As the budget season ramps up, one issue – the corporate transit fee – has business leaders seething and pushing back. The proposed 2.5% surcharge on the state's most profitable businesses would serve as a funding source for NJ Transit, which is facing a fiscal cliff. With this new fee, the state's corporate business tax rate will rise from 9% to 11.5% (the highest in the nation) – imposing a permanent 2.5% increase on the state's 600 largest companies retroactive to Jan. 1, 2024.

Gov. Phil Murphy unveiled the fee in his Fiscal Year 2025 Budget Address – blindsiding business leaders shortly after keeping his word about the sunset of the 2.5% corporate business tax surcharge – and just weeks after saying he did not see the link between that fee and NJ Transit funding. The introduction of this new proposed fee – with a similar acronym – led to immediate backlash from the business community, which has continued.

Earlier this year, the New Jersey Business Coalition, a group of nearly 100 business, labor and nonprofit groups, sent a letter to the Legislature urging them to reject the new tax increase.

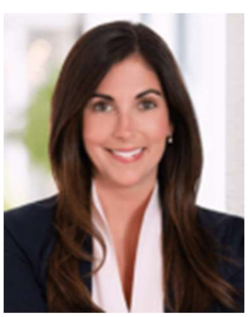
Last month, the coalition held a news conference at New Jersey Business & Industry Association headquarters in Trenton to discuss the potential effects the corporate transit fee would have on the state's employers, consumers, residents and workers. The leaders who spoke at the event warned of businesses potentially leaving, not reinvesting in the Garden State and in other states instead, or never coming here in the first place because of the state's business climate – and the ripple effect that is possible.

Siekerka

"We certainly do not want to see any company leave," said NJBIA President and CEO Michele Siekerka. "But I think the bigger threat is the lack of future reinvestment here. Companies that have been headquartered in New Jersey a long time are not likely to close their doors immediately, but when that company has its next opportunity to create 100 or 1,000 jobs, or build a new facility, they will look to do it in a more tax-friendly, affordable state."

"These businesses were told time and time again that as of Jan. 1, 2024, the 2.5% surcharge was going away," said Lori Roth, co-managing partner of the Praeger Metis accounting firm and vice-chair of the NJBIA's board of trustees, who noted that the retroactivity of the tax increase is problematic for large companies and cited the CBT sunset. "Now, should this proposal go through, that tax is back and that is something unplanned and unbudgeted for.

Christina Renna, Chamber of Commerce of Southern New Jersey president and CEO, said the proposal is especially tough for South Jersey businesses.



Renna

"It all trickles down. Consumers are going to feel this. And at a time where we are facing inflation at the rate we are, it's not the time to be doing any kind of increase on tax on businesses across the board," said Renna. "But it's a little bit of a bitter pill to swallow in the southern portion of the state – where unfortunately we do not have the access to NJ Transit services that other areas of the state have."

"And it's not for lack of wanting, and certainly, not for a lack of needing," said Renna.

Siekerka stressed that this was an issue of competitiveness – not affordability. "When we talk about costs to New Jersey's largest job creators, I want to make a very important distinction.

Because what we hear constantly is – 'well, they can afford it – so why not ask them to pay more? They should pay their fair share,'" said Siekerka. "Number one, this isn't an issue of affordability. This is an issue of competitiveness.

Roth

"And when you are an extreme outlier, businesses have the opportunity to make decisions. When they make decisions on investment and reinvestment, they need predictability and certainty before they can make those investments," said Siekerka. "And when you have policies, particularly, tax policies that flip flop – it's very difficult for a company to make an immediate short-term or long-term investment here in the State of New Jersey."

Siekerka said that since the fee was proposed, she's had a lot of dialogue with CEOs, business leaders, C-suite executives, and other stakeholders about their concerns. "It creates a culture here in New Jersey – where we have to be concerned about our ability to bank on the word of our policymakers," she explained. "And when that happens, unfortunately, it causes those investments to be frozen in their place. So, we need to ensure that a business can look – one year, three years, five years ahead when they are making long-term investments here in the State of New Jersey."

Murphy responds to critics

On a recent edition of his live call-in show on News 12 New Jersey, which was just after this coalition news conference, Murphy responded to the critics. "I don't take those concerns lightly. And, in fact, I, myself have really wrestled with this," Murphy told host Eric Landskroner. "And I accept that. Let me just say a couple of things. For 80% of the businesses in this state that were subject to the corporate surcharge over the past several years – 80% of them are getting a tax cut in this budget. So, we've moved the income levels up meaningfully. But even then, I don't take that lightly.

"But I do accept the fact that unlike the MTA in New York City, which is trying to balance their fiscal challenges on the back of New Jersey commuters," said Murphy, referring to congestion pricing. "All big transit systems, particularly post-COVID, in America are losing plus-or-minus $500 million to $1 billion – if not more. MTA is more. And I'm committed to solving that within the four walls of New Jersey. And there's no one magic wand that gets this done. Not happy about a toll hike – but it's the first one we've had. And it's a lot smaller than the ones that preceded us."


Gov. Phil Murphy delivered his seventh annual budget address on Feb. 27, 2024, in Trenton, outlining spending priorities for Fiscal Year 2025. – PROVIDED BY EDWIN J. TORRES/NJ GOVERNOR'S OFFICE

Murphy said that NJ Transit is a lot stronger and that the state will continue to put money into it. "The lord helps those that help themselves. We have pressured NJ Transit to go through an administrative restructuring of significance, including to try to unearth some of the value in the real estate that they are sitting on," said Murphy. "And then the corporate transit fee on top of that. And by the way – I was asked this question within the past several weeks. I love a scenario that, down the road, that none of this is permanent; that the state doesn't have to be in there every single year; that fares don't have to always go up. In fact, maybe they could go down. That the corporate transit fee is not forever and for always."

In other words, Murphy concluded, NJ Transit must find a way to get on its feet. "Not just to deliver great service to commuters – and they're well on the way in that direction," said Murphy. "They're not perfect – but they're getting there. But at the same time, they're a viable commercial operation. I hope that day is in the not-too-distant future."

Joining forces

The New Jersey Chamber of Commerce recently announced the launch of another effort to express displeasure with the CTF and other budget provisions, such as the buck-a-truck tax and cuts to state agencies that support economic growth.

Along with more than 40 local and regional chambers of commerce statewide, the NJ Chamber unveiled The Chamber Alliance. The group wrote to the Legislature earlier this month outlining concerns about the budget – calling it harmful to the business community and arguing that it will result in a negative ripple effect on the state's economy.

“Due to the corporate transit fee, our largest employers, who are also our biggest nonprofit philanthropists, are being saddled with a completely unwarranted tax increase – the dollar amount of which is more punitive to those affected than the recently expired CBT surcharge,” wrote Tom Bracken, New Jersey Chamber president and CEO, and Mike Egenton, the chamber’s executive vice president – Government Relations, on behalf of the co-signed organizations. “It is simply a more egregious and expensive extension of the surcharge. As a result of the Buck a Truck tax, one of the fastest growing segments of our economy, the logistics industry, is being slapped with what can only be described as a nuisance tax, which will increase costs for all New Jersey residents.”

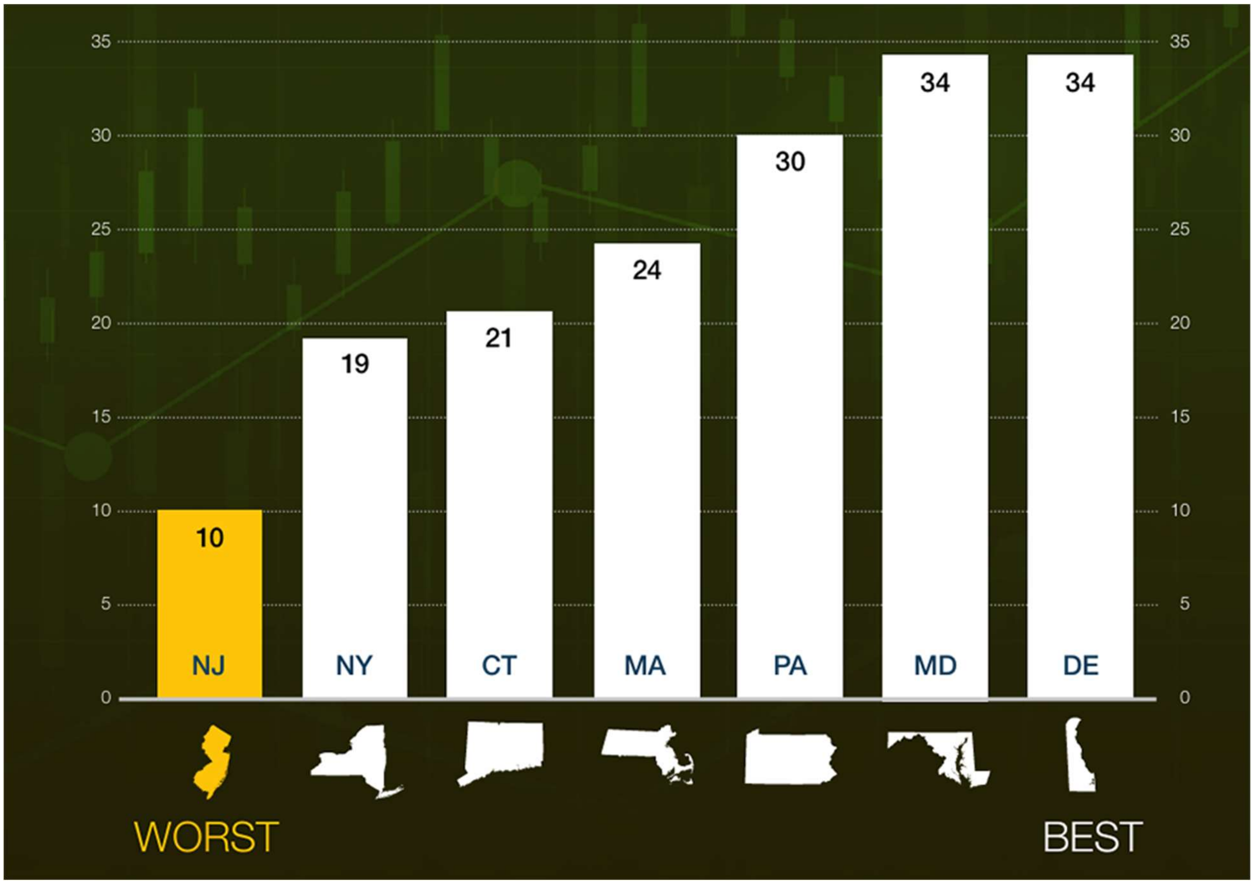
On the proposed funding to agencies like the New Jersey Economic Development Authority, New Jersey Business Action Center and the New Jersey Small Business Development Centers – which the coalition stresses have been helpful to the business community – “The budget will provide less support to an already overtaxed and over-regulated business community,” the letter continued. “The biggest threat to our state right now is the future of our economy. Right now, revenues are trending down, while expenses are going up. Yes, we have had several bond increases. Yes, we have jumped to No. 19 in the CNBC ‘Best States for Doing Business’ poll – but none of that has been produced by a strong, growing, vibrant business climate. It was accomplished with federal COVID dollars and bond proceeds.”

The group concluded by offering a series of recommendations and stressing the need for recurring, reliable, organic, growth-oriented sources of income to maintain the state’s economic prosperity. “This budget is in opposition to all of that. It begins to reverse the economic momentum we have. It also hurts our reputation as a business-friendly state,” the group wrote. “It also creates a lack of confidence for our business leaders that the state will not follow through on commitments they have made. And it makes our state more expensive and less competitive.”

Where are companies going?

John Boyd is principal of the location advisory firm The Boyd Co., which was founded in Princeton in 1975 and has been active in New Jersey for over five decades. The firm serves as one of the most trusted and experienced corporate site selection outfits; and provides independent location counsel to leading Fortune 500 and up-and-coming corporations worldwide.

Boyd lauded the efforts of the business leaders speaking up about the budget concerns. “The business community is fortunate to have NJBIA – Michele is a real pro and highly respected,” Boyd told NJBIZ. “Other prominent business leaders in the state like Tom Bracken have talked about the dangers and the consequences of this new corporate tax increase.”



In its 2024 *Regional Business Climate Analysis, the New Jersey Business & Industry Association ranked New Jersey last in the region in terms of business taxes and cost competitiveness. – PROVIDED BY NJBIA*

From a site selection standpoint, Boyd said it would absolutely have a major impact on the Garden State's competitiveness to other low-tax states – especially neighbors like Pennsylvania which is in the process of slashing its corporate tax rate. "When Phil Murphy first ran for governor, he promised to make New Jersey the California of the East," said Boyd. "Unfortunately for New Jersey's business community, with these new tax increases – he's delivered more than he's promised.

"The big winner here is our neighbor across the river – Pennsylvania. People talk about a number of states that are decreasing their tax rates like North Carolina and Iowa," Boyd explained. "But our neighbor across the river – Pennsylvania, they're taking their corporate tax rate down to 4.9% by 2031. Pennsylvania also enjoys personal income tax advantages versus New Jersey. Not every company wants to leave New Jersey and relocate or expand to a North Carolina or to a Texas. So, Pennsylvania really is well-positioned here to attract pharma and logistics jobs – two of the fastest growing industries in New Jersey."

Boyd echoed Siekerka's concerns about these bigger companies not leaving New Jersey – but maybe not expanding and instead reinvesting in new hubs and initiatives in other states. "That's consistent with national site selection trends – where companies are downsizing their real estate commitments and sort of decentralizing where they put their employees," said Boyd. "And that's tending to happen in states with lower taxes; markets with lower cost of living; markets that have a high in-migration of talent, particularly young workers."

Because of this, Boyd said that New Jersey can't rest on its laurels. "I'm a true Jersey guy. I love New Jersey. And we all know about New Jersey's terrific workforce; its access to the global marketplace; Newark Airport; its proximity to the Big Apple; its diverse industry sectors – in technology and multimedia; and its gorgeous coastline," said Boyd. "I love New Jersey. But it can no longer go on autopilot and assume that – in this post-pandemic new normal that that's enough – because it isn't."

"We see companies that have been here for a long time – that may not pick up all their toys and leave tomorrow. They want to keep a station in New Jersey. They want to keep a place here," said Siekerka. "This is a special place. This is an awesome place. I'm the biggest cheerleader for New Jersey on any given day. I can spend an hour talking about its attributes. But we can't ignore when we have a significant challenge like this facing us."

"States winning the battle for corporate investment and for talent are states that provide value and ROI to job creators and taxpayers," said Boyd. "And accountability from elected officials to the business community. So that idea of going back and not making this a temporary tax increase – that flies in the face of what winning states are doing: keeping promises to job creators."