INTRODUCTION

When states tax corporations the process is not as straightforward as taxing individuals. Unlike most people, many businesses operate in many states, so formulas are needed to figure out how much income should be taxed in which states. The task is to make sure that no income is taxed twice or that, conversely, no income that should be taxed someplace is not taxed anyplace.

Today the formula used in New Jersey takes into consideration a company's payroll, property and sales to determine how much income tax it owes. However, the Legislature now has before it a proposal that would dramatically alter the formula so that only sales count. According to the New Jersey Business & Industry Association (NJBIA), this change could cut corporate income taxes in New Jersey for certain multi-state corporations - including AT&T, Schering-Plough, Merrill Lynch, Lenox, Inc., Johnson & Johnson and American Home Products.

The most often cited argument in favor of the change is that it will stimulate job creation and investment in New Jersey. But there is little evidence that significant economic development will result from this tax change. More important, there is no doubt that there will be a significant revenue loss to the state. The relatively few companies that would benefit most are some of the largest in the state.

This report will examine the basics of corporate income taxes, analyze the current proposal for change and put the issue in context so that a more informed public debate can occur.

ABC's OF CORPORATE INCOME TAX

Corporate income tax rates vary from state to state, from 1 percent to 12 percent and rates can be either flat or graduated. Only Nevada, Washington and Wyoming have no corporate income tax. States often compete against each other to reduce rates as a way to attract businesses - though most experts believe tax rate differentials are relatively unimportant compared to other factors in deciding where to locate. In New Jersey, corporations pay a 9 percent rate.

Although the corporation income tax is New Jersey's third largest source of tax revenue, it ranks well behind the Gross Income Tax and the Sales and Use Tax in terms of revenues collected. In May 2001, the Office of Legislative Services estimated that New Jersey would collect approximately $1.3 billion in corporation business taxes compared to the $8.1 billion in personal income taxes and $5.8 billion in sales taxes it would collect in the fiscal year.
The $1.3 billion represents approximately 6 percent of all revenues collected by the state.

The need to allocate income fairly among states led to development in the 1950's of the Uniform Division of Income for Tax Purposes Act (UDITPA). The goal of this model law was to find a reasonable method to attribute corporate income to a particular state for income tax purposes so that the income could be taxed fairly by that state. UDITPA recommended a three-factor formula to allocate a corporation's profit to a particular state for tax purposes. Under this formula, the share of a corporation's total profit that a particular state may appropriately tax is determined by averaging:

- The share of its total **property** located in the state
- The share of its total **payroll** that is paid to employees working in the state
- The share of its total **sales** made to the state's residents

Using this three-factor formula, if 10 percent of a corporation's total property, payroll and sales are located in New Jersey, the state would tax 10 percent of that corporation's total profits.

While the model law makes sense from the standpoint of uniformity, it is not difficult to see why inconsistencies in state tax systems can work to the advantage of corporations. For example, if a corporation based in New Jersey sells its product in a state that does not tax those sales, then neither New Jersey nor the other state will receive any tax on the profits from those sales. The profit becomes what is known as "nowhere income." The model law sought to prevent this from happening by means of a "throwback rule." The "throwback rule" allows the "home" state to tax any sales income not taxed elsewhere.

When a state changes its apportionment to a sales-only formula, "nowhere income" is likely to increase. So it is not surprising that many states where a sales-only formula has been sought most aggressively do **not** have a rule to throw the sale back to the seller or "home" state. Included among such states are Connecticut, Maryland, Minnesota, New Jersey, New York, North Carolina and Rhode Island. Business organizations often seek repeal of this rule **after** they achieve adoption of a sales-only formula, as they have done - unsuccessfully, so far - in Illinois and Nebraska.

**DEMISE OF THREE FACTOR**

The three-factor UDITPA formula reflected broad consensus among states that both production (property and payroll) and sale of goods (sales) are positively affected by such public services as schools, police protection and roads - all financed by taxes. States where production occurs and states where sales occur both should be allowed to tax a portion of a multi-state corporation's profit because corporations benefit from government services in both states.

Before 1989, the three-factor formula - property, payroll and sales weighted equally - was the most common method used to tax income of multi-state corporations. Currently, however, only 11 states plus the District of Columbia still use the three-factor formula. The trend has been to reduce or eliminate the property and payroll factors and emphasize sales, most typically through double weighting of sales. Today, 27 states weigh sales at either 50
percent or more, with 24 of them using a double-weighted sales factor (including New
Jersey, as of 1995), and three using a formula with sales weighted more than 50 percent.

Increasing the weight of sales in the apportionment formula reduces taxes for corporations
with significant property and payroll in a state at the expense of out-of-state businesses that
sell their products in the state. It could be argued that corporations with a physical presence
in a state benefit more from publicly provided services, such as transportation systems,
police, fire, hospitals and schools, than corporations that primarily sell products in a state
but have few employees there. Rather than having taxes correlate in some way with benefits
received, increasing the weight of sales and decreasing the weight of payroll and property
means a company that has a significant physical presence in a state - and therefore receives
more benefits - pays less tax.

Nine states now have gone even further than double weighting. They use a single sales
factor formula under which a corporation's taxable income for state purposes is determined
entirely by where its sales are made. The location of a corporation's property and payroll
become irrelevant. Single factor states are: Connecticut, Illinois, Iowa, Maine, Maryland,
Massachusetts, Missouri, Nebraska and Texas. In all but Maine the impetus for change
came from large businesses based in the state that would pay lower taxes as a result. In
2000, Maine became the ninth state to amend its corporate income tax, allowing only
certain financial institutions to use single sales allocations. The law was targeted to attract
mutual fund companies to that state.

**ALLOCATION FORMULAS IN PRACTICE**

We can examine how these formulas work using three hypothetical multi-state companies.
Alpha Company makes telecommunications equipment and sells worldwide. Beta Company
is a regional food processor and trucker. Cappa Company is a major retailer based in
Illinois.

Alpha has 60 percent of its property in New Jersey, 50 percent of its payroll paid in New
Jersey and 10 percent of its sales made in New Jersey. Under the basic three-factor formula,
40 percent \([60\%+50\%+10\% / 3]\) of the corporation's profit would be taxable in New Jersey.
Under a double-weighted sales factor formula, 32.5 percent \([60\%+50\%+10\%+10\% / 4]\) of
the corporation's profit would be taxable by New Jersey. And, under the single sales factor
formula, 10 percent of the corporation's profit would be taxable by New Jersey.

Beta has 50 percent of its property, 50 percent of its payroll and 50 percent of its sales in
New Jersey. Under the basic three-factor formula, 50 percent \([50\%+50\%+50\% / 3]\) of the
corporation's profit would be taxable in New Jersey. Under a double-weighted sales factor
formula, 50 percent \([50\%+50\%+50\%+50\% / 4]\) of the corporation's profit would be taxable
by New Jersey. And, under the single sales factor formula, 50 percent of the corporation's
profit would be taxable by New Jersey.

Cappa has 10 percent of its property, 20 percent of its payroll and 50 percent of its sales in
New Jersey. Under the basic three-factor formula, 26.7 percent \([10\%+20\%+50\% / 3]\) of the
corporation's profit would be taxable in New Jersey. Under a double-weighted sales factor
formula, 32.5 percent \([10\%+20\%+50\%+50\% / 4]\) of the corporation's profit would be
taxable by New Jersey. And, under the single sales factor formula, 50 percent of the corporation's profit would be taxable by New Jersey.

### Portion of Corporate Income Taxable under Various Assumptions

<table>
<thead>
<tr>
<th>Formula</th>
<th>Alpha Company</th>
<th>Beta Company</th>
<th>Cappa Company</th>
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<tr>
<td>Three-Factor Formula</td>
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<td>50 percent</td>
<td>26.7 percent</td>
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<tr>
<td>Double-Weighted Formula</td>
<td>32.5 percent</td>
<td>50 percent</td>
<td>32.5 percent</td>
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<tr>
<td>Single-Sales Factor Formula</td>
<td>10 percent</td>
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Now assume for simplicity that each of these companies had national profits of $1 million and that New Jersey levies a flat 5 percent tax on all corporate profits.

The table below shows the dramatic impact of each change to the allocation formula and the resulting radical shifts in the allocation of tax burden depending on the proportion of property, payroll and sales within the state. Alpha would pay corporate income taxes in New Jersey on 40 percent of its profit with a three-factor apportionment formula, 32.5 percent with a double-weighted apportionment formula and only 10 percent with a single sales apportionment formula. Its state tax liability would decline from $20,000 to $16,250 to $5,000 depending on the formula used. Beta's taxable income and tax liability remain the same under each assumption. Cappa's state taxable income is greater under single sales apportionment and its tax liability would increase from $13,333 to $25,000.

### Amount of Taxes Paid under Various Assumptions

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These examples show the dramatic impact of each change in allocation formula and the resulting radical shifts in tax burden, depending on the proportion of property, payroll and sales within the state. Unless Alpha significantly increases its sales in New Jersey, the state will lose tax revenue. If Cappa finds that its taxable income and thus its tax liability increases under the single sales factor, it will try to minimize the amount of tax it pays and it may look for another market in which to sell its products.

**CORPORATE TAX STRATEGY**
The examples above illustrate that changes to apportionment formulas produce corporate winners and losers. Typically, corporations with substantial property and payroll but relatively low sales benefit by paying less under formulas that provide for a double weighting of sales or that rely solely on sales, while corporations with substantial sales but little property or payroll in a state pay more.

This would be supported by the example of Alpha, whose tax liability went from $20,000 under an equally weighted three-factor formula to $5,000 under single sales. Manufacturing firms are most likely to fit this profile, typically producing goods for a regional, nationwide or worldwide market from a handful of plants. It is not surprising, then, that the leading advocates across the country of changing to single sales factor apportionment have been state manufacturers’ associations. Corporations with significant infrastructure and employees in a state but few sales would obviously benefit from eliminating property and payroll in an apportionment formula.

But the corporate effort is highly selective. Businesses seek adoption of the single sales factor formula in a limited number of states, not on a nationwide basis. Why? If all states adopted a sales-only formula, most of the tax savings received by particular multi-state corporations in particular states would be offset by higher tax payments by these same corporations in other states. By creating a situation in which apportionment formulas are not uniform among the states, multi-state corporations can minimize aggregate tax liability for all the states in which they do business by ensuring that the tax cuts they receive in some states are not offset by tax increases in other states.

Consider these two statements:

1. "For every corporation that gets relief under this bill, two will pay higher taxes and it's because the relief given to a few corporations is so great. And even with them paying higher taxes, the total revenues from corporate income taxes goes down."  

2. "More AT&T employees work in New Jersey than in any other state - some 19,400 - and most of the company's top leaders have homes in New Jersey. There are another 8,600 retirees and more than 164,000 shareholders here too. AT&T’s operational headquarters is in Basking Ridge; the nerve center of the global network is in Bedminster; and the great undersea cables that carry the company's calls overseas snake ashore at Sandy Hook. The company gives close to $5 million a year to local charities, and more than 10,000 employees fan out through the state for a day of community service each year. A single sales factor... would provide an incentive to foster and increase this presence in New Jersey [and] will stimulate the type of capital investment that leads to overall growth in the state's economy."  

The two statements obviously express diametrically opposite views on switching to the single factor formula. What is interesting, however, is that both were made by representatives of AT&T. The difference is that the first statement was made in Oregon,
where the company opposes single factor, and the second was made in support of such a change in New Jersey. Clearly, moving to single factor would raise AT&T's taxes in Oregon but reduce them in New Jersey.

VARIOUS STATES' EXPERIENCE

Meanwhile, studies in various states have examined the impact of adopting a single sales factor formula. All show there are clear-cut corporate winners and losers. An analysis by the Oregon Center for Public Policy in June 2001 of the single sales bill proposed in that state indicated that 5,700 companies would face a tax increase, and 2,400 would receive little or no tax breaks. With an average tax cut of more than $3 million, 17 of the state's largest companies would capture 64 percent of the benefits. 4

In Maine, the Commission to Study Single-Sales Factor Apportionment estimated that for each business that has a reduction, two will experience an increase. In addition, it is possible that a predominantly Maine-based company will experience a tax increase by implementation of single sales factor apportionment because of the throwback rule, which adds back certain out-of-state and federal government sales to the Maine factor. 5

Large multi-state companies that lobby for adoption of single sales in states where they would benefit argue that they will invest more in a state where their corporate income tax burden is lower. The presumption is that these companies will expand their headquarters and plants. But significant evidence exists to the contrary. Massachusetts provides a good example. The state enacted a sales-only formula in 1995 in response to a threat by Raytheon Company - a major defense contractor and the state's largest industrial employer - to close plants in the state unless it were granted tax relief. Since then, Raytheon has closed or sold several Massachusetts facilities and reduced its workforce by 3,000 people. The now less than enthusiastic sponsor of single sales legislation in Massachusetts, State Sen. Susan C. Fargo, calls the single sales factor formula granted to defense contractors "payoffs for layoffs." 6

A recent report by the Center on Budget and Policy Priorities found that changing from three-factor apportionment to single sales leads to a significant net reduction in corporate income tax receipts in all states where analyses have been done. Among the findings:

- States that have recently estimated the revenue loss attributable to changing from a double-weighted sales factor to a single sales factor include California, Connecticut, Illinois, Maine, Massachusetts, New York and Oregon. Every analysis concluded that corporate income tax collections would be significantly reduced, with losses ranging from 1.4 percent of corporate net revenues in California to 14.8 percent of corporate tax receipts in Oregon.
- The revenue impact on a state can be substantial. Massachusetts estimates that its corporate tax revenues were $131 million lower in 2000 because of the ability of manufacturers, defense contractors and mutual fund companies to apportion profits using a sales-only formula. California estimates it would have lost $96 million in 2000. Illinois estimated a $63 million revenue loss in 2000, the first year its sales-only formula was fully phased in. 7
WHAT'S HAPPENING IN NEW JERSEY

New Jersey estimates that in Fiscal Year 2001 it took in about $37 million less from corporate taxes than it would have had the state not changed from three-factor to double weighting sales in 1995.

When the issue of double weighting the sales factor first emerged in 1978, the state Division of Taxation produced a feasibility study that found "double weighting of the sales factor would result in a substantial reduction in corporation tax for a small number of corporations. A major portion of all corporate taxpayers would not be affected. Although it has been claimed that the change would generate increased corporate activity and increased corporation taxes, there is no evidence to that effect."

In this report, it was estimated that double-weighting the sales factor would reduce the corporate net income tax liability of 3,937 corporations, of which 200 multi-state corporations would receive approximately 81 percent of the benefits.

Legislation introduced in April 2001 (A-3420; S-2314) would change New Jersey's apportionment method to sales-only. All corporations doing business in New Jersey would be taxed solely on their sales in New Jersey. According to the legislation, adopting a single sales factor would:

- Decrease the apportioned taxable income of corporations that own property and pay salaries and wages in New Jersey
- Decrease the apportioned taxable income of corporations that make sales outside of New Jersey
- Increase the apportioned taxable income of corporations that make sales in New Jersey

The legislation also would repeal the requirement that a corporation has a "regular place of business" outside New Jersey before it is allowed to apportion any income outside the state. Under current law a business pays tax to New Jersey on 100 percent of its income unless it maintains a qualifying regular place of business with at least one employee outside the state. The legislation would allow all businesses to apportion their income based on where their sales are made regardless of whether they maintain any offices or employees outside New Jersey. This provision would allow businesses to determine where their sales take place and apportion them to the appropriate state without actually having a physical presence in that state.

Neither the Department of the Treasury nor the Office of Legislative Services has provided written public information on the impact of this bill on state revenues. In the Assembly Commerce, Tourism, Gaming and Military and Veterans' Affairs Committee hearing on the bill on June 4, 2001, the state Department of the Treasury testified that implementation of the single-factor legislation would result in a revenue loss to the state that could be as much as $250 million annually, approximately 19 percent of total estimated corporate income tax collections in Fiscal Year 2001. This estimate includes a $200 million revenue loss from implementation of the single sales factor formula apportionment if no corporations are
exempted from the change and a $50 million revenue loss from the elimination of the out-of-state office requirement.

At the same hearing the New Jersey Retail Merchants Association recommended an amendment to exempt retailers from the change. The written testimony stated that "Most of New Jersey's chain retailers are headquartered out of state. They have indicated that this bill will be very costly to them, with lots of sales in New Jersey but not a lot of property or employees in the state. The new formula would penalize retailers in this category. On the other hand, in-state retailers have expressed support for this bill, as it would reduce their taxes to some degree."

Written testimony from the New Jersey Business & Industry Association warned, "In the new global economy where business location is not as critical a component to business success as once was the case, states like Maryland and New York want to eliminate any disincentives to locating plants and headquarters within their borders. If New Jersey fails to act, we may find our multi-state businesses looking to reduce New Jersey taxes by leaving our state."

The bill as it stands now would include all corporations doing business in New Jersey. Generally, the primary beneficiaries of a change to single sales factor apportionment are involved in manufacturing. Manufacturing now accounts for 12 percent of jobs in New Jersey compared to the national average of 14 percent. According to the U.S. Labor Department's Bureau of Labor Statistics, New Jersey manufacturers employed approximately 458,000 people in 2001. Among the range of products manufactured in this state are passenger vehicles, pharmaceuticals and advanced electronic equipment. This provides an indication of the nature of corporations in New Jersey that potentially would lobby in favor of this change.

The nine states now using a single sales factor formula do so as follows:

- Connecticut limits single sales to manufacturers, broadcasters and certain financial services companies
- Illinois, Iowa, Missouri, Nebraska and Texas include all corporations
- Maryland limits single sales to manufacturers
- Massachusetts includes only manufacturers and mutual fund companies
- Maine includes only certain financial institutions

REGIONAL ISSUES

Single-sales factor apportionment formulas now apply to manufacturers in Massachusetts, Connecticut and Maryland. Pennsylvania gives 60 percent weight to the sales factor for all corporations. Gov. George Pataki in New York proposed in his 2001 budget that single sales be adopted for manufacturers and phased in over five years. An alternative proposal before the New York legislature would extend single sales factor to most corporate sectors.

The New Jersey business community has expressed concern that if New York adopts a single sales factor formula for manufacturers, the concentration of more favorable apportionment formulas in surrounding states will pose a threat to manufacturers in New
Jersey. According to this argument, states taking the lead in increasing the sales factor weight are in position to reap economic benefits because producers there will enjoy a cost advantage that strengthens their ability to compete. States that are slow to implement such policies will lose out on these benefits. Of course, in every case where single sales has been implemented and measured, states have experienced a revenue loss.

These arguments imply that every corporation in New Jersey would benefit from the single sales factor. Yet the experience in all other states is that a small number of multi-state corporations are the primary beneficiaries.

It is likely that if New York adopts the single sales formula, pressure in New Jersey will increase to do likewise. Yet the majority of businesses in New Jersey would either be unaffected by such a change in New Jersey's formula (if they do not sell outside the state) or will have an increase in their tax liability. Implicit in the "me too" arguments for changing New Jersey's formula is the unsupported notion that manufacturers and other similarly situated corporations in New Jersey would relocate to New York based simply on the state's adoption of the single sales formula. This argument is inconsistent with the very limited role which state corporate tax burden plays in corporate location decisions.

SWITCHING TO SINGLE FACTOR RAISES QUESTIONS...

...About Economic Development Strategy

Testifying in Oregon in June 2001, Michael Mazerov of the Center on Budget and Policy Priorities called the single-factor measure being considered there a double-edged sword. "It does impose a tax increase on many corporations," he said. "If you're going to argue that cutting taxes for some corporations is positive for economic development then you have to also acknowledge that increasing taxes on others is negative for economic development."

In spite of this, business lobbyists around the nation, including the New Jersey Business & Industry Association, Wisconsin Manufacturers and Commerce, the Smart Growth Coalition in Oregon, the North Carolina Citizens for Business and Industry, the Business Council of New York State, Inc., promote single sales as a tool for economic development. They claim that eliminating the property and payroll factors in the apportionment formula will stimulate investment and create more jobs in states enacting single sales. In particular, they indicate the sales-only formula should provide incentives to manufacturers who produce from a small number of locations and sell into a nationwide or worldwide market.

Empirical evidence does not support these claims. By 1995, five states (Iowa, Massachusetts, Missouri, Nebraska and Texas) had enacted a single sales factor formula for manufacturers. Data showing manufacturing growth between 1995 and 2000 indicate that, on average, manufacturing declined in the U.S. by 0.5 percent. The state experiencing the fastest growth in manufacturing was North Dakota (13.6 percent), which still uses a three-factor formula. None of the five states that enacted single sales were in the top 10 in terms of manufacturing growth. Of the top 10 states with the most significant growth in manufacturing, five states still use the equally weighted property-payroll-sales formula.

In addition, there is little evidence to indicate that major plant location and expansions
correlate with enactment of single sales. Of 51 facility investments valued at $700 million or more that were placed in states with corporate income taxes between 1995 and 2000, only six were sited in single sales factor states, according to Site Selection Magazine. The top five location/expansions were in Virginia, New York, Oregon, Arizona and California. Each of these states uses a double-weighted factor formula. Merck and the Goldman Sachs Group were two of these expansions and they were located in New Jersey.  

This would strongly suggest that other factors influenced investment decisions far more heavily than the presence of single sales factor formulas. Indeed, availability of an adequate skilled labor pool, high quality roads and other public infrastructure, and good public schools and universities have been cited as having at least as much influence on a state's attractiveness to business as does a relatively low tax burden.

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...About Sound Fiscal Policy

Sound fiscal policy presumes that states raise enough revenue to support their public services. Equity and benefit issues also should be of concern, so those who can afford to and who benefit from these services support them. Analyses in individual states indicate that the net effect of changing to single sales factor apportionment on state tax revenues is negative. In the short run at least, every state loses corporate income tax revenue immediately.

The $250 million that a change to single sales factor apportionment would cost in New Jersey, represents approximately 19 percent of the estimated $1.3 billion the state expects to collect in corporate business tax revenues in Fiscal Year 2001. This is far in excess in terms of percent of revenues than most other states would lose. Any loss in corporate income taxes in a state must be made up in some other way, or fewer services will available. If other taxes must be imposed or tax rates are raised to make up for this income loss, it is important to consider who will pay these taxes.

Enacting a single sales formula shifts tax burdens. A relatively small number of corporations benefit, compared to those adversely affected. In fact, an analysis by the Oregon Legislative Revenue Office shows that, had the change been in effect in 1998, Intel, Tektronix and 15 other companies with $1 billion or more in taxable income would have received more than half of the tax cut.  

In New Jersey it was estimated in 1978 that double-weighting the sales factor would reduce the corporation net income tax liability of 3,937 corporations, of which 200 multi-state corporations would receive approximately 81 percent of the benefits. Changing to a single sales factor formula in New Jersey is likely to mirror those figures.

The single sales factor formula also violates the "benefit principle" of taxation, which says those who benefit from public services should help support those services. No one would reasonably argue that a manufacturer that does all of its production in one state but sells all of its output elsewhere is not benefiting to some degree from state services where its facilities and employees are located. Clearly the corporation's production activities make a significant contribution to its net profit.
There is one more issue of crucial fiscal concern to New Jersey. At the very least the state is expected to see a drop in the unprecedented growth of revenues over the past few years. On top of that, increased state borrowing, creation of phased-in programs with no revenue sources and the continued dedication of revenues to specific spending areas has led to a situation where New Jersey currently spends more than it takes in. This structural deficit in the state fiscal system will exist even in good economic conditions, and will widen if the economy falters. This calls into question the wisdom of a change that has been estimated to cost the state treasury in the vicinity of $250 million a year. If anything, New Jersey needs to look for ways to increase revenue, not reduce it.

...About Compliance

In the 1960s and 1970s there were discussions about the sales factor and the cost of compliance. In 1965 the Wills Subcommittee on State Taxation of the House Interstate Commerce Committee after five years of study recommended a uniform division of income through an apportionment formula composed of property and payroll factors without the sales factor. A major reason for the subcommittee's recommendation against the use of the sales factor was ease of compliance. With both the property and payroll factors, several sources of information exist, such as property assessment data and payroll tax data. But reliable information regarding sales may be far more difficult to obtain - and more susceptible to inappropriate manipulation.

The difficulty of determining where a sale takes place is magnified when the company sells a service. It becomes a question of whether the sale should be recorded in the jurisdiction where the purchase occurs or where the service is being performed. With services being provided more frequently from a remote location, this can present a time-consuming compliance problem for tax administrators.

...About Fairness and Accountability

Under the mantra of economic development and job creation, states do whatever they contend is needed to keep businesses within their borders happy. They track what other states do, in an effort to compete with business incentives to lure investments. This is an area where accountability is often lacking, and the switch to single-factor would exacerbate the situation. The danger in the single sales factor formula is that it immediately gives tax benefits to businesses with no thought about whether they are appropriate or not. There is little accountability, as can be seen in the Raytheon example in Massachusetts.

The reason for the lack of uniformity in the way major corporations are behaving on this issue also raises questions. They support single sales in some places and not others because much of the tax savings realized would vanish if all of the states adopted the same formula. Selectively picking states assures that some corporate income will be taxed in no state. In every state, it is likely that at least some major multi-state corporations would receive tax cuts if the state switched to a sales-only formula. So while the multi-state business community collectively is unlikely to seek uniform nationwide adoption of a single sales factor formula, many states can expect emergence of concerted efforts to enact a sales-only formula. Fairness and uniformity are the victims of this selective and self-serving strategy.
to enact a tax cut for the largest multi-state corporations.

Although corporations accept tax breaks gladly if states offer them and also lobby strongly for such breaks, they still locate their investments and employees where fundamental business considerations demand. There will always be a trade-off between cheap taxes and quality public services.

CONCLUSION

As matters stand, no credible, persuasive argument has been put forth in defense of changing New Jersey's corporate tax structure to single-factor sales. Instead there have been vague warnings about businesses leaving the state or reducing their investment - in the face of a growing body of research showing that tax rates are a minor determinant of where businesses locate.

At the very least, New Jersey should take no action until the state has performed and made public a study that shows who would be the winners and losers and what would be the total impact of the change.

On its face, a measure that lowers taxes for a few businesses and raises taxes for many more - with the state ending up losing money in the process - would not seem to be good public policy. Yet that is what has been proposed, with the cost in lost revenue estimated at up to $250 million a year. The financial hole would reduce the state's ability to provide vital public services - education, infrastructure, public safety and more - needed by both citizens and businesses. In the end, a loss in state corporate tax revenue would have to be made up at a time when the state's overall fiscal position appears to be declining.

END NOTES


2 The statement was released on June 4, 2001 by Oregon News Service and attributed to John Powell, a lobbyist for AT&T.

3 This written statement was presented to the New Jersey Assembly Commerce, Tourism, Gaming and Military and Veterans' Affairs Committee on June 4, 2001 by representatives from AT&T.

4 Thompson, Jeff and Sheketoff, Charles, House Bill 2281B and the Single Sales Factor: An Expensive, Ineffective, and Unnecessary Effort to Change the Business Climate, Oregon Center for Public Policy, Silverton, Oregon, June 1, 2001.


7 See Mazerov, The Single Sales Factor p.20 for a more complete list of the estimated revenue impact of adopting a sales-only apportionment formula.

8 The estimated revenue loss was provided by the New Jersey Office of Revenue and Economic Analysis on January 22, 2001 as part of a list showing the impact of the Whitman administration's major tax reductions.

9 A Feasibility Study (Pursuant to Senate Concurrent Resolution 3024): The Optional Double Weighting of the Sales Factor in the Corporation Business Tax Allocation Formula, State of New Jersey, Department of the Treasury, Division of Taxation, June, 1978.

10 See Mazerov, The Single Sales Factor p. 35 for a more complete discussion of the recent experience of single sales factor states with manufacturing job creation.

11 See Mazerov, The Single Sales Factor pp. 36-38 for more complete data on the recent record of single sales factor states in luring major plants between 1995 and 2000.

12 This analysis was provided by the Oregon Center for Public Policy based on an analysis of the Legislative Revenue Office Revenue Impact Statement on HB 2281A-4, May 2001.


New Jersey Policy Perspective is a nonpartisan, nonprofit organization established in 1997 to conduct research and analysis on state issues. Our goal is a state where everyone can achieve to his or her full potential in an economy that offers a widely shared, rising standard of living.