

Gubernatorial Candidates Tackle Tax Incentives

By Katherine Landergan

Editor's note: This article is one in an occasional series, leading up to the June 6 primary, that will examine where the major candidates for governor stand on various issues. Today's edition: Tax incentives.

Just 18 months into the next administration, state officials will be faced with a pivotal decision: whether or not to reauthorize the state's controversial tax incentive programs.

In 2013, Gov. Chris Christie [signed the Economic Opportunity Act](#), which overhauled the way tax credits are administered in New Jersey. It is set to expire in July 2019.

Opponents say the size and scope of the tax incentives are out of control, and will blow a massive hole in the state budget in future years. They also argue it's unlikely new jobs are being generated from these tax breaks, and that companies, after threatening to leave the state, will often relocate from one part of New Jersey to another just to get the breaks, but have with no real intention of leaving.

But proponents argue that when corporations say they will leave, the threat is real. Business leaders say the incentives are vital, given New Jersey's high taxes combined with competitive tax break programs in other states. Any loss in tax revenue is offset by the increase in new taxable income from these corporations, they argue, and New Jersey benefits greatly from the added jobs and economic activity.

The state Economic Development Authority, which administers the programs, has approved \$5.3 billion in incentives to businesses since the legislation took effect. But only [\\$260.3 million in tax credits](#) have been doled out because credits are administered only when a company has proven it has met the job creation and capital investments it promised. (A recent state audit found the EDA was lax in verifying that the companies awarded incentives actually followed through on their job creation promises, [although the EDA told NJ Spotlight](#) it has taken steps to rectify that.)

POLITICO New Jersey asked the six major candidates for governor their positions on the tax incentive program for businesses. Some indicated they would greatly retool the current structure, while others defended the programs but said they were open to suggestions.

Here are the candidates' responses, in alphabetical order:

Assemblyman Jack Ciattarelli, Republican

Ciattarelli said New Jersey needs a more dynamic plan in which to make it a compelling state to do business.

"The current tax incentive programs to retain and attract businesses are a short-term Band-Aid approach to economic development and growth," the Somerset County lawmaker said in a statement.

Ciattarelli said the state must phase out the corporate business tax, and create a comprehensive economic development program in which the New Jersey Chamber of Commerce, the New Jersey Business & Industry Association, the Business Action Center and Choose New Jersey all have a say.

He also said the state must identify emerging industries that will grow over the next five to 15 years and make sure the state possesses the "institutional resources and labor feeder programs" necessary for those industries to take hold in New Jersey.

Lt. Gov. Kim Guadagno, Republican

Guadagno issued a statement defending the state's incentive programs as a net positive for New Jersey's economy, spurring billions of dollars in investment that may have gone to other states. She said that under her leadership as lieutenant governor, there was [drastic private sector job growth](#) and a plummeting unemployment rate — which she said was due in large part to the incentive programs.

"For the past 8 years, I have been charged with growing jobs in New Jersey as our first lieutenant governor — not an easy task when we have a high cost of living and among the highest taxes in the country," Guadagno said. "The truth is that after [former Democratic governor] Jon Corzine left New Jersey's economy in shambles, the state's incentive program is a big part of what has allowed New Jersey to remain an option for many companies."

Guadagno said New Jersey must keep an incentive program to stay competitive, given that other states like Massachusetts are aggressively recruiting with incentives. And yet, she said, New Jersey must routinely review its incentives and ensure companies are actually bringing the jobs they promised to create.

"Now that our unemployment rate is below the national average, we may want to consider changes to future incentive programs to maximize their impact, including moving the state's attention to other areas and industries in the state," she said in the statement.

Jim Johnson, Democrat

Johnson, a former U.S. Treasury official, said in a statement he would end the corporate tax subsidies to political insiders he says have benefited from the policies enacted under Christie. Instead, Johnson said, he would invest in small- and medium-sized businesses and sectors where there is potential for innovation and growth, citing green energy as one example.

"Over the last seven years of failed leadership, Chris Christie, aided and abetted by both Republicans and Democrats in Trenton, has given away billions of dollars in tax incentives to

politically-connected businesses that often do not create jobs in our state and drive up tax rates on hardworking New Jerseyans," Johnson said in his statement.

Johnson's campaign said he would ensure that incentives are allocated to companies that are creating new jobs, and not those relocating jobs within New Jersey. Johnson also pledged to increase transparency in the application and decision-making process.

His campaign pointed to another program, "[Launch Tennessee](#)," as a potential model, which they say has helped foster collaboration among entrepreneurs, the business community and others in that state.

"They have created networks of startup incubators which act as hubs for entrepreneurs and investors to collaborate and innovate," Aleigha Cavalier, communications director for the Johnson campaign, said in a statement. "This is the type of work New Jersey should be doing, rather than doling out subsidies to large corporations that don't even create new jobs with the money that they are given."

Sen. Ray Lesniak, Democrat

Lesniak, who sponsored the legislation that overhauled the state's incentives in 2013, defended the program, saying the tax credits have bolstered economic development in New Jersey. The incentives, he said, have created tens of thousands of permanent jobs, tens of thousands of construction jobs and prevented thousands of jobs from leaving the state. He also claimed the programs will bring \$20 billion of new revenue to the state in the next 20 to 30 years.

But Lesniak said he is prepared to make adjustments following the release of a study on New Jersey's incentive program in 2018. The state has [contracted with Rutgers](#) University to study the effectiveness of these tax breaks.

Phil Murphy, Democrat

According to a campaign spokesman, Murphy has been highly critical of the state's tax incentives under Christie, and thinks the current system leaves many small- and medium-sized businesses behind.

"It is a myth that the only thing government can do to attract and keep companies is to get into a bidding war of tax giveaways," the spokesman, Derek Roseman, said. "As a result, the Christie policy has had the effect of decimating state revenues while further contributing to our economic stagnation. Tax incentives have a place, but paying hundreds of thousands of dollars per job to keep relatively few companies here is outdated and small thinking."

Murphy's campaign said he would use the first year-and-a-half of his administration to examine the effectiveness of all aspects of the law and look to other states for new

strategies. The key is to have a comprehensive program that creates jobs but does not jeopardize the state's fiscal health, Roseman said.

The campaign also indicated Murphy would want to rework the current formula to drive more economic development to New Jersey's cities.

"In thinking through these programs, Phil will embrace the historic reality that, for the first time since WWII, New Jersey is re-urbanizing -- a tremendous opportunity to stimulate economic growth throughout our state," Roseman said in the statement.

Assemblyman John Wisniewski, Democrat

Wisniewski has also questioned the effectiveness of the incentives, and says that, as governor, he would freeze the programs.

"Tax incentives, in a sense, are a race to the bottom," the Middlesex County lawmaker said. "The problem is when we are competing against a state like New York, where the budget is greater and resources are greater, that battle is not always going to come out in our favor."

Wisniewski said he would issue an executive order to temporarily stop giving out these breaks to businesses, and thoroughly audit the programs. If some sort of incentive program is deemed necessary, Wisniewski said, he would back legislation to modify and reign in the incentives.