

# Expanding home sales tax would stifle economy

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Odds are that you never heard of the realty transfer fee, but there's little chance of escaping its impact. This state-imposed home sales tax, begun in 1968 as a nominal charge for tracking real estate transactions, has increased dramatically since 2003, adding to home sale closing costs and overall home prices. Efforts are now under way in Trenton to permit your town to add its own tax to that charged by the state.

Home sellers will feel the greatest impact from these increases. The seller typically pays the tax, based on the property sale price. The result: instant reduction of homeowner equity.

Consider two couples — one in their mid-20s, another approaching retirement — and how both, despite different circumstances, are similarly burdened by home sales tax increases. For both scenarios, we also show the likely impact on these couples if their towns were permitted to collect an extra local home sales tax.

The young couple wants to start a family. They own a condominium unit, once ideal for their lifestyle and budget. But now that they're ready for children, they need a larger home. They cut coupons, stop eating out and save every penny to put down on the home of their dreams.

They plan to put the condo sale proceeds toward the new home's purchase price and updated furnishings. While happy to sell their condo for \$155,000, they didn't plan on added charges in the form of a \$600 home sales tax and a \$150 local home sales tax.

Further effects become apparent when the seller of the home they're purchasing raises the price to \$375,000 to compensate for \$2,975 in home sales tax and \$375 in local home sales tax. With money already tight, they postpone upgrading essential appliances.

The older couple, just turned 60, recently paid off their mortgage and are selling the home where they raised two children, now living on their own. The couple always has loved the Jersey Shore. With the proceeds from their old house, they plan to pay for their new shore home, set aside money for their grandchildren and travel around the world. Like the younger couple, they are pleased with the sale price of their home: \$550,000. And like the younger couple, they didn't plan on a \$4,655 home sales tax and \$550 local home sales tax. They'll still put money aside for their grandchildren, but maybe not as much.

Clearly, the home sales tax had a direct impact on postponing the dreams of these people. The imposition of a home sales tax by their towns would further postpone their dreams.

But the realty transfer fee has other far-reaching effects.

Research commissioned by the New Jersey Association of Realtors Governmental Research Foundation and conducted by the Rutgers Economic Advisory Service at the Edward J. Bloustein School of Planning and Public Policy shows that increases in the tax will have a negative impact on homeownership in New Jersey. A 10 percent increase in the transfer tax reduces home sales by more than 6,000 over eight years. If increased by 75 percent, the fee reduces home sales by 37,910 over the same period.

The study's gloomy picture extends to the state's overall economy as well. Each home purchase spurs an array of other purchases. From new appliances to interior decorating, home buyers spend money to customize new homes to their liking. Fewer home transactions mean fewer stoves and refrigerators sold. It

means fewer gallons of paint, pieces of furniture and yards of carpeting sold, too. This slowdown in purchases contributes to a sluggish economy and fewer jobs. Commercial property also would be subject to a local property transfer tax, making its negative economic impact even more severe.

The home sales tax has grown into something with a direct impact on New Jersey's home sales and overall economy. While it is officially called a fee, it is in every dimension a home sales tax.

Expanding this home sales tax by allowing local government to impose their own fees on home sales will drive up the cost of owning a home in New Jersey and make buying a home too expensive for too many New Jersey families.

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