

Real Estate Taxes: New Jersey Towns Go On The Defensive

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Federal income tax reform, by limiting the deduction for state and local taxes, has placed a bright spotlight on real estate taxes here in New Jersey, where property owners bear one of the heaviest tax burdens in the country. Despite the musing of Treasury Secretary Mnuchin that local governments should concentrate on cutting their budgets and thereby provide tax relief, the focus instead has been - and will continue to be on - raising revenue.

It is no surprise, then, that tax exempt properties have come under closer scrutiny. For example, as the result of a New Jersey Tax Court opinion in 2015 involving Morristown General Hospital, many non-profit hospitals have been sued to revoke their longstanding tax exemptions on the basis that they operate with many characteristics of a for-profit hospital. Municipalities where such hospitals operate have been aggressive in pursuing tax payments. Legislation has been introduced, but not yet enacted, in an attempt to strike a balance between the competing interests of the hospitals and their host communities.

In addition, some municipalities have filed tax appeals seeking to increase the assessments of commercial properties set by their own tax assessors. This frequently occurs where the municipality obtains appraisal evidence that a particular class of properties, such as office buildings, are under-assessed. In a recent decision, the Pennsylvania Supreme Court declared that such practices violate the Uniformity Clause of the Pennsylvania Constitution. New Jersey has a similar provision in its Constitution but there has been no ruling by the New Jersey Supreme Court on this issue.

The growing demand for government services, the increasing cost of providing those services, the well-documented need for extensive infrastructure repairs, not to mention the tax refunds paid as a result of successful tax appeals, will undoubtedly cause taxing districts to explore

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new ways to increase tax revenue. Whether real estate tax assessments warrant a reduction or a municipality commences an appeal challenging an exemption or seeking an assessment increase, property owners are cautioned to seek experienced legal advice.