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Capstone Portfolio

When User Fees Become Taxation: The Hidden Burden on Low Income Households

In New Jersey, property taxes traditionally fund community services, including police and fire departments, schools, road maintenance, and waste collection. Recently, local governments have introduced user fees for specific services, including parking and garbage collection. Advocates argue that user fees are equitable because only service recipients bear the costs.

However, this perspective may overlook the possibility that user fees could place a disproportionate financial burden on low-income households. Without careful policy design, user fees may function as concealed taxes that could adversely affect those with limited financial resources.

There are several reasons why municipalities prefer user fees. First, user fees follow the benefits-received principle: the people who use a service should pay for it (Tassonyi & Kitchen, 2021). Second, they diversify municipal revenue sources, which gives towns flexibility under New Jersey's 2% property tax cap ("Assembly Bill, No. 1482", 2018). Third, user fees enable municipalities to pay for services directly, rather than relying on general taxes.

These advantages rely on the idea that user fees are proportional, optional, and non-exclusive, but this is not always the case. Evidence shows that user fees often account for a larger share of income for low-income households than for wealthier ones (Tassonyi & Kitchen, 2021). For example, a $50 sewer or waste collection fee may not be a significant burden for a high-income household, but it can be a substantial expense for a family earning $20,000 a year.

Some research suggests that nonpayment of fees can disproportionately harm the poor. Families unable to pay fees may face fines or service cutoffs, which could lead to exclusion from essential services (Boddupalli & Nembhard, 2024).

New Jersey provides an example of the potential inequities associated with uniform user fees. A statewide affordability assessment revealed that water and sewer charges exceeded reasonable affordability thresholds for numerous low-income households, potentially leading to financial hardship in accessing essential utilities (Van Abs et al., 2021).

As municipalities increasingly rely on user fees to fund essential services, there is a risk that these charges become unaffordable for some residents, potentially resulting in exclusion and challenging the fundamental nature of public goods.

To address situations like these, New Jersey lawmakers have proposed requiring that user fees for traditional municipal services be included within the 2% cap on municipal and county property taxes ("Assembly Bill, No. 1482", 2018). This approach aims to prevent municipalities from circumventing tax limits by disguising increases as "fees". By including essential services fees in the levy cap, the state strives for greater transparency and equity, helping to ensure that residents are not surprised by hidden taxes.

Considerations for Taxpayers

Homeowners frequently express concern about increased taxes for services they may not use, especially in areas with high tax rates, such as New Jersey. At the same time, it is worth noting that a uniform $50 fee does not necessarily carry the same financial impact for all households. For some low-income families, this fee might require making difficult trade-offs, such as forgoing essential needs. A flat fee can be more burdensome for those with limited resources. While transparent property taxes may be unpopular, they can provide a more equitable approach to taxation.

Critics argue that incorporating user fees within the levy cap could diminish efficiency and fiscal discipline. Others express concern that income-based fee adjustments introduce administrative complexity. Municipalities may be able to address these challenges by leveraging existing eligibility systems, such as Supplemental Nutrition Assistance Program (SNAP) or Medicaid enrollment, to automatically apply discounts and minimize administrative burdens. State oversight and financial assistance can further support municipal fiscal stability while helping to safeguard vulnerable populations. Non-essential services, such as public pools or parking permits, may be more appropriately priced with uniform fees because they are not essential. In contrast, imposing uniform fees on core services such as trash collection, sewer systems, or water might shift the basic tax burden onto those least able to pay. In New Jersey, including these core service fees within the 2% levy cap could represent a step toward transparency and fairness.

Local government finance requires striking a balance between efficiency and social equity. Policymakers should establish clear guidelines for fair user fees, ensure fee structures are progressive, and regularly review impacts on low-income residents.

Transparent and just fiscal policies that protect vulnerable populations help strengthen communities and build public trust.

References

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