

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 2209
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: APRIL 20, 2022

SUMMARY

Synopsis: Increases annual income limitation for senior and disabled citizens’ eligibility for \$250 property tax deduction and bases future annual income limitations on annual CPI changes.

Type of Impact: Increased State costs (Property Tax Relief Fund).

Agencies Affected: Department of the Treasury; municipalities.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State Cost Increase	\$22,876,303	\$21,075,196	\$19,415,894

- The Office of Legislative Services (OLS) has determined that the bill would result in an increase in State costs of \$22.9 million in Fiscal Year 2024, \$21.1 million in Fiscal Year 2025, and \$19.4 million in Fiscal Year 2026. If the bill takes effect, an additional 90,000 homeowners may qualify for the senior and disabled citizens’ property tax deduction.
- Annual increase or decreases in the number of property taxpayers who are eligible for the senior and disabled citizens’ property tax deduction, and the total number of deductions paid, will depend on changes in the Consumer Price Index (CPI).
- The bill cannot take effect until the voters approve a constitutional amendment authorizing an increase in the income limit from \$10,000 to \$20,000, and possible annual increases thereafter tied to the CPI. The process for amending the New Jersey Constitution would delay implementation of the bill until tax/calendar year 2023 (Fiscal Year 2024).

BILL DESCRIPTION

This bill increases, from \$10,000 to \$20,000, the annual income eligibility limit for the senior and disabled citizens’ property tax deduction. The bill further requires the adjustments to the income limit based on changes in the annual changes in the Consumer Price Index for All Urban

Consumers, New York-Northern New Jersey-Long Island Metropolitan Area, All Items, as published by the federal Bureau of Labor Statistics.

Article VIII, Section 1, paragraph 4 of the New Jersey Constitution provides that senior citizens aged 65 years or older, or persons less than 65 years of who are permanently and totally disabled, and their surviving spouses, shall be entitled annually to a \$250 property tax deduction, if they are citizens and residents of New Jersey, own and occupy their homes and have an annual income that does not exceed \$10,000. The current income limit has not been increased since 1983.

The bill takes effect immediately but would remain inoperative until the voters approve a constitutional amendment authorizing an increase in the income limit and annual increases thereafter.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that enactment of the bill would result in increased State costs of \$22.9 million in Fiscal Year 2024, \$21.1 million in Fiscal Year 2025, and \$19.4 million in Fiscal Year 2026. These figures represent the sum total of the cost of providing the senior and disabled citizens' property tax deduction to new program participants and the two percent administrative fee required by law.

The OLS calculations are based on estimates of the number of property taxpayers who would become eligible for the senior and disabled citizens' property tax deduction due to adjustments in the income limit permitted by the bill. Approximately 89,710 property taxpayers would become newly eligible for the deduction in Fiscal Year 2024. Increases and decreases in the number of program participants will be dependent on the number of property taxpayers who exit the program versus the number of property owners that are permitted to apply for the deduction due to increases in the income ceiling. This estimate assumes that all eligible property taxpayers will apply for and receive the deduction and that the number of recipients will continue to decline in accordance with recent trends.

These projections are based, in part, upon two considerations. First, the bill currently increases the income limit from \$10,000 to \$20,000 beginning in calendar year 2014. This estimate assumes that the bill will be amended so that the new income limit will take effect in calendar year 2023. Second, the current annual income cap is set by the New Jersey Constitution. This estimate assumes approval of a constitutional amendment increasing the income limit to \$20,000 at the general election in November 2022. If implementing legislation is enacted early in the following year, municipalities would be reimbursed by the State in September 2023, which is in Fiscal Year 2024.

Eligibility for the senior and disabled citizens' property tax deduction is determined primarily by an applicant's income. An applicant must establish that his or her anticipated income from all sources for the year in which the deduction is claimed will not exceed \$10,000, after excluding income from one of the following three categories: (1) the federal Social Security Act and all of its amendments and supplements; (2) any other federal government program or federal law which provides benefits in whole or in part in lieu of Social Security benefits or for persons excluded from Social Security coverage, including but not limited to the Federal Railroad Retirement Act and federal pension, disability, and retirement programs; or (3) pension, disability, or retirement

programs of any state or its political subdivisions or agencies, for persons not covered under Social Security provided that the total benefit excludable is not in excess of the maximum benefit excludable in similar circumstances under Social Security.

Because Social Security is not included in the calculation of an applicant's income for eligibility purposes, it is possible for an applicant to receive annual income greater than \$10,000, yet also be eligible for the senior and disabled citizen's property tax deduction. Information published by the U.S. Social Security Administration in the 2021 Annual Statistical Supplement indicates that the average monthly Social Security Benefit provided to New Jerseyans age 65 and over is \$1,685 per month, or \$20,220 per year. From calendar years 2016 through 2020, the average monthly benefit increased by an average of 2.82 percent annually. Therefore, in calendar year 2023, an applicant could receive up to \$21,380 annually (or about \$1,782 monthly) in Social Security income and retain their program eligibility. Increasing the income limit used to determine program eligibility from \$10,000 to \$20,000 could permit applicants with an effective income of up to \$41,380 to qualify for the property tax deduction.

According to the 2016-2020 American Community Survey (ACS) 5-Year Estimates compiled by the U.S. Census Bureau, there were 114,733 homeowners age 65 or over with a household income of \$30,000 to \$44,999. Budget data published by the New Jersey Department of the Treasury indicates that the number of persons receiving the property tax deduction has decreased by 7.87 percent per year from calendar year 2016 through calendar year 2020. Thus, the ACS estimate was reduced from 114,733 to 89,711. To estimate the additional State costs for Fiscal Year 2024, the projected number of new program participants was multiplied by the amount of the senior and disabled citizens' property tax deduction ($89,711 \times \$250 = \$22,427,748$). To determine the amount of the two percent administrative fee, the cost of the additional property tax deductions was multiplied by .02 ($\$22,427,748 \times .02 = \$448,555$). The total additional State cost is the sum of the estimated amount of new property tax deductions and the estimated administrative fee ($\$22,427,748 + \$448,555 = \$22,876,303$).

The additional State costs may increase in Fiscal Years 2025 and 2026 because projected increases in the CPI will result in commensurate increases in the income ceiling, thereby allowing additional property taxpayers to become eligible for the deduction. For purposes of computing the CPI, this estimate relies upon annual changes in the CPU for All Urban Consumers, New York-Newark-Jersey City, NY-NJ-PA, All Items, published by the Bureau of Labor Statistics. The CPI data show that the index has risen by 1.66 percent per year from calendar year 2016 through calendar year 2020. Therefore, the income limit would increase from \$20,000 in Fiscal Year 2024 to \$20,332 and \$20,670 in Fiscal Years 2025 and 2026, respectively. However, when projected increases in Social Security income are taken into account, the effective income limit would increase from \$41,380 in Fiscal Year 2024 to \$43,275 in Fiscal Year 2026. If annual adjustments in the CPI and Social Security income allow more people to become eligible for the senior and disabled citizens' property tax deduction, the State costs will continue to increase.

Section: Revenue, Finance and Appropriations
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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).