SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 676

STATE OF NEW JERSEY

DATED: FEBRUARY 28, 2022

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 676.

This bill indexes for inflation the taxable income brackets under the New Jersey gross income tax. This adds to the State personal income tax a taxpayer protection called inflation indexing that has been provided under the federal income tax since the 1980s. Inflation indexing means that tax brackets are revised annually to reflect nominal price and wage increases that result from inflation. When tax brackets are not indexed for inflation it results in what is called "bracket creep," which is an increase in effective tax rates caused by inflation. Higher income can bump a taxpayer into the next tax bracket, even if that higher income is merely keeping pace with inflation. A lack of inflation adjustment can also push more of a taxpayer's income into the highest bracket for which they qualify. The final result is a tax increase that occurs without any legislation being passed. Indexing addresses this by altering each bracket level each year by the level of annual inflation.

Under this bill the inflation adjustment for taxable income brackets is the national consumer price index for all urban consumers as prepared by the United States Department of Labor. The bill compares an annual inflation measure from the year prior to the one for which taxes will be imposed to a base year measure from the year prior to the one in which the bill is enacted. This delay allows the Director of the Division of Taxation to determine the adjusted amounts when the tax year begins.

This bill was pre-filed for introduction in the 2022-2023 session pending technical review. As reported, the bill includes the changes required by technical review, which has been performed.

FISCAL IMPACT:

The Office of Legislative Services estimates this bill may reduce annual gross income tax (GIT) revenues deposited into the Property Tax Relief Fund by between $150 million to $440 million in the first full fiscal year in which it is effective, which amounts will compound each fiscal year thereafter. This estimate assumes that the consumer price index for all urban consumers (CPI-U) remains between two percent and six percent annually.

A smaller revenue loss between $7.5 million and $22 million may occur in the fiscal year in which the bill first takes effect, reflecting the impact of decreased income tax withholdings.