LEGISLATIVE FISCAL ESTIMATE

SENATE COMMITTEE SUBSTITUTE FOR

SENATE, Nos. 737 and 951

STATE OF NEW JERSEY
220th LEGISLATURE

DATED: MARCH 9, 2022

SUMMARY

Synopsis: Excludes contributions made to certain retirement savings plans under gross income tax.

Type of Impact: Annual State revenue losses, gains, and shifts across fiscal years affecting the Property Tax Relief Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	
Annual State Revenue Loss	$204.6 million, of which indeterminate portions will be revenue shifts and revenue losses across fiscal years
Annual State Revenue Gain	Indeterminate

- The Office of Legislative Services (OLS) estimates that shifting the taxation of employee contributions to certain retirement savings plans under the gross income tax from the year of contribution to the year of distribution (or withdrawal) will initially lower State revenue collections by $204.6 million in the taxable year following enactment. The annual amount will change in subsequent years in accordance with employee savings patterns.

- The aggregate effect of the bill on gross income tax collections over time cannot be determined. Some of the taxes that will no longer be collected in the year of contribution to concerned retirement savings plans will instead be collected in the year of distribution from the plans, some will be lost, and some may cause additional tax collections.

BILL DESCRIPTION

The bill defers the taxation of contributions to the following retirement savings plans under the gross income tax from the year of contribution to the year of distribution or withdrawal: (1) qualified defined benefit pension plans under section 401(a) of the federal Internal Revenue Code (IRC); (2) annuity contracts under section 403(b) of the IRC; (3) qualified deferred compensation plans of a state or local government under section 457 of the IRC; (4) the federal Thrift Savings

Fund; and (5) individual retirement accounts under section 408 of the IRC. The tax deferral first applies to contributions made in the taxable year beginning on January 1 next following enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that shifting the taxation of employee contributions to certain retirement savings plans under the gross income tax from the year of contribution to the year of distribution (or withdrawal) will initially lower State revenue collections by $204.6 million in the taxable year following enactment. The annual amount will change in subsequent years in accordance with employee savings patterns.

Specifically, the OLS estimates that conferring tax-deferred status to contributions to the following employer-sponsored retirement savings plans will cause the estimated initial non-collection of the following State revenue: 1) defined benefit pension 401(a) plans, $87.9 million; 2) 403(b) annuity plans, $52.6 million; 3) section 408 IRAs, $24.1 million; 4) section 457 deferred compensation plans, $14.3 million; and 5) federal Thrift Savings Fund, $25.6 million. These estimates depend on a variety of State and federal data sources to account for the wide variety of government employee and private sector savings vehicles affected by the bill. In most cases, the estimates assume a 3.5 percent average marginal income tax rate for affected taxpayers.

The aggregate effect of this bill on gross income tax collections over time cannot be determined. Some of the taxes that will no longer be collected in the year of contribution to concerned retirement savings plans will instead be collected in the year of distribution from the plans, some will be lost, and some may cause additional tax collections. The OLS, however, has no informational basis to quantify the long-term net effect of this bill or its individual components.

Conceptually, revenue losses will accrue as some taxpayers will no longer reside in New Jersey when they withdraw balances from their savings plans. In addition, some taxpayers will have reduced gross incomes in retirement, which will be taxed at lower rates when they withdraw balances from their retirement savings plans relative to the time of contribution.

The bill’s annual State revenue losses may be partially offset by indeterminate annual State revenue increases due to two factors. First, deferring the taxation of contributions to retirement savings plans will increase a taxpayer’s gross income in years in which the taxpayer withdraws balances from the account. This may newly disqualify certain taxpayers from the full retirement income exclusion under the gross income tax, which is fully available to joint filers with an annual income not exceeding $100,000, single filers with an annual income not exceeding $75,000, and married persons filing separately with an annual income not exceeding $50,000. A partial exclusion is available for those with incomes as high as $150,000. Second, taxpayers who were not New Jersey residents when they contributed to concerned employer-sponsored retirement savings plans but reside in New Jersey when they withdraw balances therefrom, will newly pay New Jersey gross income tax on their contributions.

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.).