LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 4028
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: JUNE 29, 2023

SUMMARY

Synopsis: Expands eligibility for State gross income tax credit for child and dependent care expenses and increases amount of credit.

Type of Impact: Annual State revenue loss to the Property Tax Relief Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	Fiscal Year 2025 and Annually Thereafter
State Revenue Loss Increase	$16.0 million to $17.7 million

- The Office of Legislative Services (OLS) estimates that this bill will result in total State losses of between $43.3 million and $45.0 million, which would represent additional State revenue losses of between $16.0 million and $17.7 million annually when compared to the most recent Executive Branch estimates of tax expenditures for the child and dependent care expense tax credit.

BILL DESCRIPTION

This bill revises the State's child and dependent care tax credit, which is based on the federal credit and is for taxpayers who incur expenses for household services and the care of a child or dependent to enable the taxpayer to be employed. The bill: (1) expands eligibility for the State child and dependent care credit against the New Jersey gross income; and (2) increases the amount of the credit. The bill expands qualifying income brackets for taxpayers who are married filing jointly or filing as a head of household or as a surviving spouse for federal income tax purposes, and raises the $150,000 income eligibility limit to $250,000 for these taxpayers. Under the bill, the income limit would remain at $150,000 for all other filing statuses but the amount of the New Jersey credit available to taxpayers would be increased. The changes are summarized in the table below:

Married Individuals Filing Separately and Unmarried Individuals	
Current Law	**Bill**
Not over $30,000 (50 percent of federal credit)	Not over $30,000 (60 percent of federal credit)
Over $30,000 but not over $60,000 (40 percent of federal credit)	Over $30,000 but not over $60,000 (50 percent of federal credit)
Over $60,000 but not over $90,000 (30 percent of federal credit)	Over $60,000 but not over $90,000 (40 percent of federal credit)
Over $90,000 but not over $120,000 (20 percent of credit)	Over $90,000 but not over $120,000 (30 percent of credit)
Over $120,000 but not over $150,000 (10 percent of federal credit)	Over $120,000 but not over $150,000 (20 percent of federal credit)
Married Couple Filing Jointly, Head of Household, and Surviving Spouse	
Current Law	**Bill**
Not over $30,000 (50 percent of federal credit)	Not over $50,000 (60 percent of federal credit)
Over $30,000 but not over $60,000 (40 percent of federal credit)	Over $50,000 but not over $100,000 (50 percent of federal credit)
Over $60,000 but not over $90,000 (30 percent of federal credit)	Over $100,000 but not over $150,000 (40 percent of federal credit)
Over $90,000 but not over $120,000 (20 percent of credit)	Over $150,000 but not over $200,000 (30 percent of federal credit)
Over $120,000 but not over $150,000 (10 percent of federal credit)	Over $200,000 but not over $250,000 (20 percent of federal credit)

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that this bill will result in total State revenue losses of between $43.3 million and $45.0 million, which would represent additional State revenue losses of between $16.0 million and $17.7 million annually when compared to the most recent estimates of tax expenditures for the child and dependent care expense tax credit. The OLS does not have access to State-level child and dependent care tax credit data. Instead, the office relies on publicly available federal child and dependent care tax credit information from the Internal Revenue Service's (IRS) Statistics of Income from Tax Years 2018 to 2020.

The OLS also notes that, while the federal tax data includes a breakdown of the number of filers utilizing the federal credit by certain income ranges, the data do not include a breakdown by filing status. For the purposes of this estimate, the OLS assumes that 70 percent of filers are married couple filing jointly, heads of households, or surviving spouses and 30 percent of filers are married individuals filing separately and unmarried individuals. This assumption is based on a 2017 Congressional Research Service report indicating that over seven out of 10 federal child and dependent care tax credit filers are married couple families where both parents worked, with the remaining being single parents who worked.

Expanding the eligible population for the State child and dependent care tax credit to married households, heads of households, and surviving spouses that make up to $250,000, and increasing the percentage of the federal credit for married individuals filing separately and other unmarried individuals, is estimated to cost a total of between $43.3 million and $45.0 million. This estimate would represent additional State revenue losses of between $16.0 million and $17.7 million when compared to the most recent Executive Branch estimates of tax expenditures for the child and dependent care expense tax credit. The FY 2024 Tax Expenditure Report currently lists the revenue loss stemming from the child and dependent care tax credit at $27.3 million in each FY 2023 and FY 2024.

Section:	*Revenue, Finance and Appropriations*
Analyst:	*Christopher Myles* *Senior Fiscal Analyst*
Approved:	*Thomas Koenig* *Legislative Budget and Finance Officer*

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.).