

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 2784

STATE OF NEW JERSEY 216th LEGISLATURE

DATED: NOVEMBER 13, 2015

SUMMARY

- Synopsis:** Provides partial exemption and maximum sales and use tax imposition amount for sales and uses of boats and vessels; establishes grace period for use tax imposition on certain boats and vessels used by resident purchasers.
- Type of Impact:** Recurring annual loss of State sales and use tax revenues deposited into the General Fund and the Property Tax Relief Fund.
- Agencies Affected:** Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual Impact</u>
State Revenue	Indeterminate Revenue Loss – See comments below

- The Office of Legislative Services (OLS) estimates the State will incur a **revenue loss of at least \$8.0 million - \$12.3 million per year** in the first few years following enactment as a result of *the bill's 50 percent exemption* for sales and uses of boats and vessels. These amounts **may increase by as much as \$3.1 million per year** in future years if sales of recreational boats and vessels return to pre-recession peaks achieved during the last decade.
- The OLS also **expects the State to incur additional revenue losses** as a result of the bill's *maximum \$20,000 tax limitation* and the bill's *30-day "use" grace period*, but lacks sufficient information to quantify the expected loss to the State from these tax-related measurers.

BILL DESCRIPTION

Senate Bill No. 2784 (2R) of 2015 provides certain tax breaks for the sale or use of boats or vessels in this State. The bill provides a 50 percent exemption from the sales and use tax for sales of new and used boats and vessels, establishes a maximum \$20,000 tax limitation on the amount of sales and use tax that is permitted to be imposed and collected on the sale or use of a

boat or vessel, and institutes a 30-day “use” grace period under which certain boats and vessels are permitted to be used in this State without incurring a use tax liability.

Under the bill, the 50 percent exemption and the maximum \$20,000 tax limitation apply to sales and uses on or after the first day of the second month next following the date of enactment. The bill provides for the 30-day “use” grace period to apply to uses on or after January 1 next following the date of enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates the State will incur a revenue loss of at least \$8.0 million - \$12.3 million per year in the first few years following enactment as a result of the bill’s 50 percent exemption for sales and uses of boats and vessels. These amounts may increase by as much as \$3.1 million per year in future years if sales return to pre-recession peaks achieved during the last decade.

The OLS also expects the State to incur additional revenue losses as a result of the bill’s maximum \$20,000 tax limitation and the bill’s 30-day “use” grace period, but lacks sufficient information to quantify the expected loss to the State from these tax-related measures. There are no publicly available data that permit the OLS to identify the number and price of boats and vessels with a sales price in excess of \$571,428, the price point above which the maximum tax limitation will apply. Moreover, the OLS is unable to determine the number or value of boats and vessels that are used in this State and ordinarily would incur a use tax liability except for the bill’s “use” grace period.

Estimated State Revenue Loss from 50 Percent Exemption

The estimate that the State will incur a revenue loss of at least \$8.0 million - \$12.3 million per year in the first few years following enactment as a result of the bill’s 50 percent exemption is derived from national sales data published in the National Marine Manufacturers Association’s *2013 Recreational Boating Statistical Abstract*. These national sales figures are adjusted to account for certain assumptions regarding New Jersey’s likely share of the national recreational boating market, and further modified to reflect the tax rate expected to be collected from sales of boats and vessels at the time the exemption is implemented.

According to the association’s statistical abstract, there were 532,170 new boats (including recreational power, sail, and paddle) and 955,300 used boats (including recreational power and sail) sold nationally in 2013. During this same period, national expenditures for sales of new boats totaled \$7.550 billion, and national expenditures for sales of used boats totaled \$10.095 billion.

That same source of data also indicates that in 2013 New Jersey accounted for 1.99 percent of new recreational powerboat sales in the United States. Separate information obtained from the United States Coast Guard indicates New Jersey accounted for 1.29 percent of all recreational boat registrations in the United States during 2013.

Those percentages yield New Jersey specific estimates of between 19,188 and 29,586 new and used boat sales, and a total combined value generated from sales of those boats of between \$227.6 million and \$351.0 million in 2013. Applying one-half of the current sales and use tax rate (3.5 percent because of the 50 percent exemption) to the total combined value generated from New Jersey sales suggests State revenue losses may total between \$8.0 million and \$12.3 million per year in the first few years following enactment.

However, actual losses may increase by as much as \$3.1 million per year in future years if expenditures for new and used boats and vessels return to pre-recession peaks achieved during the last decade. Information obtained from the association's statistical abstract for 2013 indicate that in 2006 the total combined value generated from national sales of new and used boats totaled \$22.426 billion, or \$4.781 billion more than the amounts generated from sales of new and used boats in 2013.

Expected State Revenue Loss from Maximum \$20,000 Tax Limitation

The bill's maximum \$20,000 tax limitation on the amount of sales and use tax that is permitted to be imposed and collected on the sale or use of a boat or vessel is expected to result in a recurring annual revenue loss to the State. This expectation is based on the fact that following enactment the State will forgo the collection of sales and use tax on certain amounts paid for the purchase of each new or used boat or vessel that is sold for a sales price in excess of \$571,428.

Under the bill, the maximum tax limitation has no impact on taxpayers who purchase a new or used boat or vessel sold for a sales price that is less than or equal to \$571,428. Taxpayers who purchase a new or used boat or vessel with a sales price in excess of \$571,428 pay the maximum \$20,000 in sales and use tax, but are not required to pay tax, at the rate of 3.5 percent, on any amount that is paid for the boat or vessel in excess of that mark.

However, it is unclear how much revenue the State will forgo on an annual basis as a result of the bill's maximum tax limitation. The publicly available national data suggest that the vast majority of boat sales are for smaller boats and vessels priced well below \$571,428 and that the larger, higher-priced boats and vessels such as inboard cruisers account for a small fraction of all new boats and vessels sold nationally in 2013, but more precise data on the boats and vessels that are likely to benefit from the maximum tax limitation are not available.

There are no publicly available data that permit the OLS to determine the number of new and used boats and vessels that are sold for a sales price above \$571,428 in New Jersey on an annual basis. Additionally, there are no distributional data that permit the OLS to determine the price of each new or used boat or vessel that is sold in excess of \$571,428 in New Jersey on an annual basis, and, therefore, no way to calculate with any certainty the amount the State is expected to lose as a result of the bill's maximum \$20,000 tax limitation.

Expected State Revenue Loss from 30-Day "Use" Grace Period

The bill's 30-day "use" grace period is expected to result in a recurring annual State revenue loss. This expectation is based on the assumption that following enactment the State will be restricted from compelling the payment of use tax that is currently required to be paid in connection with the use of certain boats and vessels in this State.

Under the bill, boat owners who purchase their boat or vessel in another state or jurisdiction and typically keep that boat or vessel at an out-of-State location are granted a limited window of up to 30 calendar days in each calendar year to use that boat or vessel in this State without incurring a use tax liability. As a result of this change, the State will be required to forgo the

collection of some amount of use tax that is due and ordinarily required to be paid on certain boats and vessels that are purchased without payment of the State's sales tax (or purchased without payment of an amount equivalent to the State's sales tax to another state or jurisdiction) and subsequently used in this State.

However, the amount of revenue the State is expected to forgo on an annual basis as a result of the bill's 30-day "use" grace period cannot be determined. Anecdotal information made available by the Division of Taxation in the Department of the Treasury suggests the State has collected upwards of \$3.2 million since 2011 from boat owners who have failed to pay sales and use tax on their boats or vessels at the time of purchase or first use in New Jersey, but more precise data on the boats and vessels that are likely to benefit from the maximum tax limitation are not available.

There are no publicly available data that permit the OLS to determine the number of boats and vessels that will take advantage of the "use" grace period on an annual basis following enactment of the bill. Additionally, there are no distributional data that permit the OLS to determine the value of each boat or vessel that will benefit from the "use" grace period, and, therefore, no way to calculate with any certainty the amount the State is expected to lose as a result of the bill's 30-day "use" grace period following enactment of the bill.

Additional Assumptions and Other Considerations

It is important to note that the estimate for the amount of State revenue that may be lost as a result of the bill's 50 percent exemption for sales and uses of boats and vessels is derived using national sales data published by the National Marine Manufacturers Association, a trade organization that is dedicated to advocating on behalf of the recreational boating industry. For purposes of analysis, the OLS assumes the national data contained in the association's statistical abstract are accurate, but no secondary source of publicly available information was identified to independently verify the reliability of the sales figures that are used to estimate the amount of State revenue that may be lost on an annual basis as a result of the bill.

In addition, it is important to note that the estimate for the amount of State revenue that may be lost as a result of the bill's 50 percent exemption is derived using national sales data comprised of new and used recreational boat sales, and that the data pertaining to used boat sales specifically include sales figures for pre-owned powerboat and sailboat sales in 2013. For purposes of analysis, the OLS assumes the used boat sales data contained in the association's statistical abstract are a valid representation of the pre-owned boats and vessels sold nationally in a given year, but the lack of information on the used paddle boat segment of the market and uncertainty regarding the potential pool of unregistered boats and vessels that trade hands in a given year leave open the degree to which the available data may miss the mark in describing the used boat segment of the current recreational marketplace.

Further, it should be noted that the estimate of the potential revenue loss is an estimate of the direct revenue loss that may be incurred by the State. The estimate attempts to quantify the direct revenue that may be lost by the State in providing a 50 percent exemption, establishing a maximum \$20,000 tax limitation, and instituting a 30-day "use" grace period, but does not take into consideration the indirect gains or losses that may accrue to or be incurred by the State and local governments as a result of the bill.

In large part, the indirect gains or losses are not taken into consideration because it is unclear the extent to which the tax breaks provided by the bill will induce new or additional spending. It is not currently known if the 50 percent exemption, the maximum \$20,000 tax limitation, or the 30-day "use" grace period will encourage new or additional spending that would not have occurred but for the tax breaks provided by the bill, or if the individual measures will simply

reward recreational boating enthusiasts for doing something they would have done anyway regardless of the tax breaks provided by the bill.

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.).