

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 1728
STATE OF NEW JERSEY
217th LEGISLATURE

DATED: MARCH 4, 2016

SUMMARY

Synopsis: Increases exclusion amount under New Jersey estate tax; phases out estate tax over five years.

Type of Impact: Annual loss of revenue to the General Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State Revenue	\$120	\$245	\$300	\$365	\$550
Loss	Million	Million	Million	Million	Million

- The Office of Legislative Services (OLS) estimates this bill would reduce annual estate tax revenues deposited into the General Fund by \$120 million in FY 2018, \$245 million in FY 2019, \$300 million in FY 2020, \$365 million in FY 2021, and \$550 million in FY 2022, at which point the estate tax would be fully repealed. Following the full repeal, the amount of revenue foregone to the General Fund would continue to change with the value of estates.
- Data from the Department of the Treasury indicate that this bill, once fully implemented, would eliminate the estate tax on approximately 3,500 estates annually. This number equals about 5 percent of the approximately 70,000 deaths reported by the Department of Health each year in the State.

BILL DESCRIPTION

Senate Bill No. 1728 of 2016 phases out the estate tax over five years, first by replacing the current \$675,000 threshold with a \$1,000,000 exclusion, and then increasing that exclusion amount until the tax is eliminated.

The current New Jersey estate tax is determined by reference to a repealed federal credit against a system of federal estate taxation that no longer exists. The former federal credit was part of a national revenue-sharing policy, no longer in effect, that was originally designed to

provide a portion to states of what would otherwise have been a high-rate federal tax. Because the mechanics of the current tax are a remnant of that former federal imposition, the New Jersey estate tax is initially imposed at a rate of 37 percent until all the tax that would have been imposed on the value of the estate below \$675,000 is made up. Under the current tax, that highest rate is imposed on even the smallest estates subject to tax.

This bill gets rid of that tax rate “bump” by abandoning the references to the old federal credit and establishing the necessary mechanics under New Jersey law. This allows the bill to replace the former \$675,000 tax threshold with a true tax exclusion, initially set at \$1,000,000 beginning January 1, 2017. The bill increases the exclusion amount to \$2,500,000 for 2018, \$3,500,000 for 2019, and \$5,000,000 for 2020. For 2021 and thereafter, the bill provides that there will be no tax imposed.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates this bill would reduce annual estate tax revenues deposited into the General Fund by \$120 million in FY 2018, \$245 million in FY 2019, \$300 million in FY 2020, \$365 million in FY 2021, and \$550 million in FY 2022, at which point the estate tax would be fully repealed. Following the full repeal, the amount of revenue foregone to the General Fund will continue to change with the value of estates.

Given that estates typically take nine months to complete the tax return process, this bill would have no fiscal impact in FY 2017. The impact would begin with FY 2018 and be fully phased-in five years later, in FY 2022. As the exclusion thresholds are phased-up, the tax “bump” (that part of the tax imposed on estate values below the threshold amounts) would be replaced by a “true” tax exclusion amount each year. The OLS estimates the annual revenue loss at each step of the process as follows:

Estimated Impact of Senate Bill No. 1728			
Fiscal Year	Est. Estate Tax Revenue Current Law	Est. Estate Tax Revenue S-1728	Est. Revenue Loss S-1728
2017	\$391,000,000	\$391,000,000	\$0
2018	\$418,000,000	\$298,000,000	\$120,000,000
2019	\$448,000,000	\$203,000,000	\$245,000,000
2020	\$479,000,000	\$179,000,000	\$300,000,000
2021	\$512,000,000	\$147,000,000	\$365,000,000
2022	\$550,000,000	\$0	\$550,000,000
After 2022	The amount of revenue foregone will continue to change with the value of estates.		

These estimates are based on Treasury data from FY 2014, the most recent year for which OLS has tax collections data by size of estate, and during which the estate tax accounted for

\$320.0 million in revenue. The OLS then assumes annual growth in future years of 7 percent, ultimately yielding an estimated total of \$570.0 million in FY 2022 at the time of full repeal. In the two most recent years, FY 2014 and FY 2015, total estate and inheritance taxes increased by 10 percent and 15 percent respectively, while growth over the last five years has averaged about 7 percent. For the phase-in years, the OLS applied the annual growth to estate tax amounts at the different levels of the value of estates, as detailed in the Treasury data. In addition, the OLS estimated the impact of eliminating the “bump” using the number of estates at each level applied to the tax table amounts from the Division of Taxation’s estate tax worksheet.

Data from the Department of the Treasury indicate that this bill, once fully implemented, would eliminate the estate tax on approximately 3,500 estates annually. This number equals about 5 percent of the approximately 70,000 deaths reported by the Department of Health each year in the State.

The OLS notes that the estate tax is a volatile revenue source. Much of that volatility reflects assets such as stocks, which can see sharp increases and decreases in value, as measured by the major stock indexes such as the Standard and Poor’s 500 index. Accordingly, a prolonged or severe “bear” or “bull” market could indicate subsequent downward or upward volatility in the potential value of the foregone revenues under this bill.

Section: Revenue, Finance, and Appropriations

*Analyst: Martin Poethke
Principal Revenue Analyst*

*Approved: Frank W. Haines III
Legislative Budget and Finance Officer*

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