

LEGISLATIVE FISCAL ESTIMATE
SENATE COMMITTEE SUBSTITUTE FOR
SENATE, Nos. 129 and 1025
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: DECEMBER 30, 2019

SUMMARY

- Synopsis:** Excludes from gross income taxation military compensation for personnel serving outside of State and combat zone compensation.
- Type of Impact:** Annual revenue loss to the Property Tax Relief Fund
- Agencies Affected:** Division of Taxation, Department of the Treasury

Office of Legislative Services Estimate

Fiscal Impact	<u>Potential Annual Impact</u>
State Revenue Loss	Indeterminate

- The Office of Legislative Services (OLS) concludes that the bill will result in an indeterminate annual loss of revenue to the Property Tax Relief Fund. The magnitude of the impact on State revenues may vary annually and is dependent upon future U.S. military deployments and the number of military personnel domiciled in New Jersey but serving outside of the State.
- The OLS is unable to quantify the fiscal impact of the bill because of the variations in compensation paid to members of the Armed Forces, National Guard, and reserve and the number of New Jersey residents deployed to combat zones. It is also unclear the number of military personnel who are domiciled in New Jersey and are gross income taxpayers but are serving outside of the State.

BILL DESCRIPTION

This bill excludes military pay for service in a combat zone or for hospitalization as the result of injury while serving in a combat zone from taxable gross income under the New Jersey gross income tax. A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat.

The bill also allows an exclusion for certain military compensation from the gross income tax for those military personnel who are domiciled in New Jersey but serving their duty outside of the State.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that the bill will result in an indeterminate annual loss of revenue to the State's Property Tax Relief Fund. Below is an analysis of potential foregone revenue broken out by regular military compensation and combat zone pay based on various assumptions regarding the composition of military personnel who are also New Jersey gross income taxpayers.

Regular Military Compensation

A September 2017 report from the Defense Manpower Data Center (DMDC) estimated that approximately 1.1 million active duty personnel are stationed in the United States. In order to estimate how many active duty military personnel serve outside of New Jersey, while still domiciled in the State, the OLS subtracted the number of military personnel stationed in New Jersey, which was 7,669. The OLS then applied an adjustment factor of 2.7 percent, which is New Jersey's proportion of the United States population, to the difference to arrive at an estimate of 30,030 active duty military personnel who serve outside of the State and are New Jersey residents. Furthermore, the OLS divided the active duty military personnel among enlisted personnel, warrant officers, and commissioned officers. Based on a report titled 2017 Demographics: Profile of the Military Community, the OLS assumed that 80 percent of 30,030 military personnel were enlisted members while the remaining were officers. The military demographic report also indicated that of the officers, approximately 15.6 percent are warrant officers while the remaining were commissioned officers. Therefore, our estimate was 24,024 active duty enlisted members, 937 active duty warrant officers, and 5,069 active duty commissioned officers who were serving in the United States, but outside of New Jersey.

Based on salary information from the Defense Financing and Accounting Service (DFAS) and based on a report by the Pew Research Center that stated that the average length of time served by an enlisted member was seven years, the OLS estimated an annual salary of \$33,459 for enlisted members. Per the New Jersey Statistics of Income report, an average effective tax rate in this range is 1.1 percent. The OLS applied this average effective tax rate to the salary to arrive at foregone revenue of \$368 per member. For officers, the Pew report stated that the average length of time served is eleven years. Based on this information and information from DFAS, the estimated annual salary for commissioned officers was \$77,355 and the estimated annual salary for warrant officers was \$60,789. The OLS applied an average effective tax rate of 2.1 percent for commissioned officers' salaries and 1.9 percent for warrant officers' salaries to arrive at \$1,624 per person and \$1,155 per person in foregone revenue for commissioned officers and warrant officers, respectively.

Combat Zone Pay

Based on the September 2017 DMDC report on American military personnel overseas, the estimate was 55,027 active duty military personnel and 17,078 reserve military personnel in combat zones. The countries identified as combat zones based on Internal Revenue Service information were Afghanistan, Bahrain, Djibouti, Egypt, Iraq, Israel, Jordan, Kosovo, Kuwait, Kyrgyzstan, Lebanon, Montenegro, Oman, Pakistan, Qatar, Saudi Arabia, Serbia, Somalia, Syria,

Tajikistan, United Arab Emirates, Uzbekistan, and Yemen. The OLS again applied a 2.7 percent adjustment factor to calculate how many of these military personnel are domiciled New Jersey taxpayers. The OLS then applied the same proportions as outlined in the first paragraph between enlisted personnel, warrant officers, and commissioned officers to active duty military personnel as stated above to arrive at 1,189 active duty enlisted officers in combat zones, 46 active duty warrant officers in combat zones, and 251 active duty commissioned officers. The OLS used the same demographic report to apply a proportion of 86.6 percent of members as enlisted members and the remaining as officers with 18.8 percent as warrant officers and the remaining as commissioned officers. Based on this calculation, the OLS assumed 399 enlisted reserve military personnel in combat zones, 12 reserve warrant officers in combat zones, and 50 reserve commissioned officers in combat zones. A report titled Eleventh Quadrennial Review of Military Compensation stated that the average combat zone pay is \$225 per month and a report by the National Academy of Sciences stated that the average length of time in the combat zone is eight months. Therefore, the OLS estimates average total combat zone pay to be \$1,800. The OLS applied a marginal tax rate of 1.5 percent to arrive at foregone revenue of excluding combat zone pay of \$52,565. However, it is important to note that military personnel can be domiciled in New Jersey, but serving outside of the United States, so this estimate may represent the high end of the range of possibilities.

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.).