

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 2624
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MARCH 16, 2020

SUMMARY

Synopsis: Establishes a manufacturing reinvestment account program to incentivize capital investment and workforce training in New Jersey with income tax rate reductions, deferrals, and accelerated deductions.

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

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2021 and Thereafter</u>
Annual State Revenue Loss	Indeterminate

- The Office of Legislative Services (OLS) cannot determine the annual State revenue loss of this bill with any certainty, since the OLS cannot predict the number of qualified manufacturers that will utilize the program established by the bill and the total amount of deductible contributions to manufacturing reinvestment accounts.
- The OLS notes that the bill contains provisions that could at least partially offset the bill's impact on State revenues by taxing the amounts remaining in a manufacturing reinvestment account after the fifth year and distributions from the account for purposes other than qualified reinvestment expenditures.

BILL DESCRIPTION

This bill establishes a manufacturing reinvestment account program to incentivize capital investment and workforce training in New Jersey. The bill offers three incentives for manufacturing businesses through the gross income tax (GIT) and corporation business tax (CBT): (i) an accelerated deduction for amounts deposited in a manufacturing reinvestment account for future use on qualified capital purchases and workforce training; (ii) deferred taxation on account earnings; and (iii) a rate reduction for the earnings on account deposits upon distribution.

The bill's manufacturing reinvestment account program allows qualified manufactures to make a deductible deposit of up to \$100,000 annually in an account for five years. Earnings in the account are not taxed until withdrawn. For withdrawals made during the account's five-year life for spending on New Jersey based manufacturing equipment, machinery, or workforce development, a qualified manufacturer receives a one-half rate reduction on the withdrawn account earnings. Nonqualified withdrawals are included in whole in taxable income without the rate reduction on earnings.

To qualify for the manufacturing reinvestment account program, the bill requires a manufacturer to have no more than 50 employees and be in good tax standing. The bill restricts qualified manufacturing reinvestment accounts to those accounts offered by financial institutions in New Jersey to accept solely cash deposits and bear interest.

The bill is scheduled to take effect immediately and apply to tax years beginning on or after the date of enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS cannot determine the annual State revenue loss of this bill with any certainty, since the OLS cannot predict the number of qualified manufacturers that will utilize the program established by the bill and the total amount of deductible contributions to manufacturing reinvestment accounts. The OLS notes that the bill contains provisions that could at least partially offset the bill's impact on State revenues by taxing the amounts remaining in a manufacturing reinvestment account after the fifth year and distributions from the account for purposes other than qualified reinvestment expenditures.

The bill allows a taxpayer to deduct up to \$100,000 annually from entire net income (CBT taxpayers) or gross income (GIT taxpayers) for contributions to a manufacturing reinvestment account. The deduction is available for each year during a five-year period, which begins following the taxpayer's first deposit into a manufacturing reinvestment account. Thus, the maximum deduction a taxpayer could receive over the five-year period is \$500,000. The highest CBT rate is nine percent and the GIT rate is 10.75 percent. If the higher of the two rates is applied against the maximum annual deduction of \$100,000, the State revenue loss per taxpayer could be as much as \$10,750 annually. The OLS does not know how many manufacturers in this State will qualify under the bill, but to provide context as to the potential population, approximately 6,000 manufacturers in this State had an employment size of zero through 49 in 2016.¹

The contributions to the account will remain excluded from entire net income and gross income if the taxpayer uses the amounts distributed from the account for qualified reinvestment expenditures. However, the taxpayer would have to pay taxes on the earnings generated from the interest bearing account at half of the taxpayer's highest tax rate. The bill does not set the interest rate for manufacturing reinvestment accounts, so the OLS cannot quantify potential interest derived earnings and the taxes that would subsequently be paid on those earnings.

¹ 2016 SUSB Annual Data Tables by Establishment Industry –
(https://www2.census.gov/programs-surveys/susb/tables/2016/state_naicssector_2016.xlsx?#)

The OLS does not expect the annual State revenue loss to reach \$10,750 per taxpayer. Many qualified manufacturers will not take advantage of the program due to firm-specific factors. Some manufacturers may contribute less than the maximum to manufacturing reinvestment accounts, or may not use all distributions from the accounts for qualified reinvestment expenditures. Lastly, the bill contains provisions that could at least partially offset the bill's impact on State revenues by taxing the amounts remaining in a manufacturing reinvestment account after the fifth year and distributions from the account for purposes other than qualified reinvestment expenditures.

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.).