

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 264
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MARCH 16, 2020

SUMMARY

Synopsis: Allows gross income tax deduction for charitable contributions to certain New Jersey-based charitable organizations.

Type of Impact: Annual State revenue loss to 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) is unable to determine the exact magnitude of the State gross income tax revenue loss from the charitable contribution deduction provided in this bill, given the absence of information on contributions by New Jersey gross income taxpayers to qualified New Jersey-based charitable organizations. Subject to certain assumptions, however, the OLS estimates that the annual revenue loss could range from \$218.5 million to \$374.6 million.

BILL DESCRIPTION

This bill allows New Jersey gross income taxpayers to deduct from gross income charitable contributions they make to qualified New Jersey-based charitable organizations in taxable years beginning on or after the January 1 next following the date of enactment. The deduction is limited to the amount of charitable contributions that is allowable as a deduction from federal adjusted gross income.

The bill defines “qualified New Jersey-based charitable organization” as a charitable organization that is registered pursuant to the "Charitable Registration and Investigation Act," or an organization that is exempt from the registration requirements of that act, and that maintains an office, employs persons, and provides services in this State.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

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Internal Revenue Service (IRS) data indicate that roughly 1.6 million New Jersey taxpayers claimed \$7.3 billion in itemized charitable deductions on their federal tax year 2017 returns. But these data are of limited use for purposes of this estimate. For one, they do not comprise the entire New Jersey taxable return population, since more than half of New Jersey taxpayers do not itemize deductions on their federal returns. The IRS data also do not indicate whether deductions were to qualified New Jersey-based charitable organizations, as the term is defined in the bill.

Notwithstanding these limitations, assuming that three-quarters of the \$7.3 billion in charitable contributions deducted at the federal level would be deductible at the State level if the bill were enacted, the potential pool of New Jersey taxpayer charitable contributions would approximate \$5.5 billion. Multiplying that amount by effective tax rates of 3.5 percent and 6.0 percent yields an estimated State tax revenue loss of \$192.5 million to \$330.0 million per year. This range, however, does not account for taxpayers who make charitable contributions but do not itemize deductions on their federal returns.

Data included in “Giving USA 2019: The Annual Report on Philanthropy for the Year 2018” allows for an estimate of charitable contributions by taxpayers who do not claim itemized deductions on their federal tax returns. The report was produced by the Indiana University Lilly Family School of Philanthropy for the Giving USA Foundation. According to the report, charitable giving by American individuals, bequests, foundations, and corporations to United States charities equaled an estimated \$427.7 billion in 2018. Giving by individuals represented approximately 68.0 percent of the total, or \$290.8 billion. This amount is about 13.5 percent higher than the \$256.3 billion taxpayers nationwide itemized on their federal income tax returns in tax year 2017. If that extra 13.5 percent is applied to the \$192.5 million to \$330.0 million range estimated above to account for charitable donations by New Jersey taxpayers who do not itemize deductions on their federal income tax returns, the range of the estimated annual State revenue loss increases to \$218.5 million to \$374.6 million.

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.).