

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 835
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: SEPTEMBER 25, 2020

SUMMARY

Synopsis: Expands eligibility under New Jersey earned income tax credit program to allow taxpayers who are at least 18 years of age to qualify.

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	Up to \$14 million

- The Office of Legislative Services (OLS) estimates that gross income tax revenue, which is deposited into the Property Tax Relief Fund, will decline by up to \$14 million annually if this bill is enacted. Based on tax year 2018 and tax year 2019 data, the OLS projects that approximately 72,000 filers may be newly eligible to claim the modified New Jersey Earned Income Tax Credit Program (NJEITC) as a result of the bill. The OLS believes the actual cost of this bill will fall below \$14 million annually, since the maximum credit allowed will not be claimed by all newly eligibly filers.

BILL DESCRIPTION

This bill expands eligibility for certain resident individuals to claim the NJEITC. Under the federal program, there are age restrictions for taxpayers who cannot claim a qualifying child. Currently, a taxpayer who is between 25 and 65 years old is eligible for federal earned income tax credit even without claiming a qualifying child. The bill allows a taxpayer who is between 18 and 65 years old to claim the New Jersey earned income tax credit based on a percentage of the federal earned income tax credit amount the taxpayer would have otherwise been eligible for absent the age restriction.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

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For tax year 2019, the maximum federal earned income credit a taxpayer filing a single return with no qualifying children could receive was \$529. This credit amount is available for taxpayers with earned income between \$6,900 and \$8,650. The credit amount varies by the taxpayer's income similar to the shape of a trapezoid. As a taxpayer earns more income, that taxpayer will receive a greater benefit up to a maximum. Once a taxpayer reaches that point, the benefit begins to decrease until it hits \$0. The credit fully phases down once a taxpayer filing a single return with no qualifying children has earned income in excess of \$15,550.

To illustrate, New Jersey's minimum wage is currently \$11 per hour. If a resident worked 16 hours a week at minimum wage for 52 weeks, that resident will have earned income of \$9,152. This resident would be eligible for a federal earned income credit of roughly \$489 and an NJEITC of \$195.60, based on the current 40 percent NJEITC calculation. If a resident worked 32 hours a week at minimum wage for 52 weeks, that resident would have earned income of \$18,304 and would not be eligible for a federal earned income credit or NJEITC.

Based on the federal IRS income and tax data for tax year 2018, roughly 1.375 million returns were filed for taxpayers with adjusted gross income of not more than \$25,000. Of those returns, 28 percent included a claim for the federal earned income credit. Further, of the 1.375 million returns, 1.003 million were single filer returns. In order to determine the number of single returns that may have included a claim for the federal earned income credit, the 1.003 million single filer returns were multiplied by 28 percent to yield approximately 280,840 returns that included such a claim. As a result, roughly 722,160 single filer returns are assumed to not have included a claim, but not all of these returns are for those who are at least 18 years of age, but not older than 24 years of age.

According to the federal Bureau of Labor Statistics (BLS) "Labor Force Statistics from the Current Population Survey," approximately 12 percent of employed persons across the country were at least 16 years of age, but not older than 24 years of age. Likewise, the Kaiser Family Foundation estimates, based on U.S. Census data, that eight percent of New Jersey's population was between the ages of 19 and 25. Given that the BLS data include 16 and 17 year olds, the 12 percent was adjusted down to 10 percent for purposes of calculating the number of single returns filed by residents who are at least 18 years of age, but not more than 24 years of age, yielding a population of 72,207 eligible returns.

The potential fiscal impact of the bill was calculated utilizing the 72,207 eligible returns multiplied by the maximum NJEITC benefit amount (\$195.60). The projected fiscal impact is an annual State revenue loss of up to \$14.1 million. Please note that it is highly unlikely that newly eligible residents will all claim the maximum NJEITC benefit amount. Thus, the actual impact is expected to be lower than \$14.1 million annually.

Section: Revenue, Finance and Appropriations

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Legislative Budget and Finance Officer

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.).