

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 835

**STATE OF NEW JERSEY
219th LEGISLATURE**

DATED: SEPTEMBER 28, 2020

SUMMARY

- Synopsis:** Expands eligibility under New Jersey earned income tax credit program to allow taxpayers who are at least 21 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	Roughly \$11 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 roughly \$11 million annually if this bill is enacted. Based on tax year 2018 and tax year 2019 data, the OLS projects that approximately 57,800 filers may be newly eligible to claim the modified New Jersey Earned Income Tax Credit Program (NJEITC) as a result of the bill.

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 would allow a taxpayer who is at least of 21 years old, but less than 25 years old, to claim the New Jersey earned income tax credit using a modified calculation that is predicated on the federal maximum amount for taxpayers with no qualifying children.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that gross income tax revenue, which is deposited into the Property Tax Relief Fund, will decline by roughly \$11 million annually if this bill is enacted. Based on tax year 2018 and tax year 2019 data, the OLS projects that approximately 57,800 filers may be newly eligible to claim the modified NJEITC, as a result of the bill.

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.

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 21 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. If the eight percent is assumed for those who are at least 21 years of age or older, the eligible population of returns would be 57,772 eligible returns.

The potential fiscal impact of the bill was calculated utilizing the 57,772 eligible returns multiplied by the maximum NJEITC benefit amount of \$195.60 (40 percent of the federal benefit) yielding a revenue loss of \$11.3 million annually. The OLS notes that the maximum federal benefit tends to increase annually, but not by a substantial amount. The OLS also notes that fluctuations in the eligible population could cause fluctuations in the revenue loss between the years.

Section: Revenue, Finance and Appropriations
Analyst: Jordan M. DiGiovanni
Revenue Analyst
Approved: Frank W. Haines III
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.).