

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 1958
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: FEBRUARY 17, 2021

SUMMARY

Synopsis: The “New Jersey Jobs for New Jersey Act.”

Type of Impact: Annual revenue decrease for the State General Fund and the Property Tax Relief Fund.

Agencies Affected: Department of Labor and Workforce Development; Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Revenue Decrease	Indeterminate		

- The Office of Legislative Services (OLS) estimates that this bill may result in a significant but indeterminate decrease in revenue generated by the Corporation Business Tax (CBT) and the Gross Income Tax (GIT) allocated to the State General Fund and the Property Tax Relief Fund, respectively.
- The OLS is unable to determinate the cost of the tax credit provided by the proposed New Jobs for New Jersey program due to uncertainty in the number of eligible individuals who may be hired and their wages and the tax liability of their employers. The OLS estimates that the hiring of each qualified employee under the program may result in an average tax credit for the employer of between \$3,042 and \$12,547 annually per qualified employee based on certain assumptions.
- The OLS notes that if the employer’s application is approved for any of the tax years 2021, 2022, or 2023, the employer may continue to receive the tax credit for any of the four tax years following that tax year during which the employer meets the requirements of the bill. The carryover provision of the tax credit and that it is refundable increases the likelihood that employers will take advantage of it and potentially increase the revenue loss to the State.

BILL DESCRIPTION

This bill establishes the New Jobs for New Jersey tax credit program to be administered by the Commissioner of Labor and Workforce Development. The purpose of the program is to provide

incentives to small private sector employers who increase their workforce by hiring unemployed workers.

The bill makes an employer of 100 or fewer full-time employees eligible for a refundable tax credit against the CBT or the GIT, whichever applies to the employer, for each eligible individual employed on a full-time basis during a tax year, if certain requirements are met.

The bill sets the amount of the refundable tax credit as the total amount of the employer payroll taxes paid during that tax year by the employer with respect to that individual. Employer payroll taxes include the portion paid by employers of State unemployment, temporary disability, and workforce development and basic skills assessments, and federal Social Security, Medicare, and unemployment taxes. The bill provides that the employer receives the tax credit only for the number of eligible individuals employed full-time during the tax year which does not exceed the net increase in the number of full-time employees employed full-time during the tax year compared with the average total number of full-time employees employed by the employer during the 12-month period immediately preceding April 1, 2021.

An employer may apply for and qualify for a tax credit under the bill with respect to tax years 2021, 2022, and 2023. If the employer's application is approved for any of those three years, the employer may continue to receive the tax credit for any of the four tax years following that tax year during which the employer meets the requirements of the bill.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that this bill may result in a significant but indeterminate decrease in revenue generated by the CBT and the GIT allocated to the State General Fund and the Property Tax Relief Fund, respectively. The OLS cannot determine the exact cost of the bill due to uncertainty in the number of eligible individuals who may be hired and their salaries and the tax liability of each employer. The OLS estimates that the hiring of each qualified employee under this program may result in an average tax credit for the employer of between \$3,042 and \$12,547 annually for up to four years per qualified employee based on certain wage assumptions, applicable tax rates, and taxable wage base. The refundable nature of the tax credit and that it can be carried over for four subsequent years makes it more likely that that employers will utilize the tax benefit.

There will be variation in the amount of the tax credit in a given year because the payroll taxes paid by the employer that comprise the total credit are largely wage dependent as well as determined by the tax rates, the taxable wage base on which rates are applied, and changes in tax policy. However, in general, the higher the wage of the employee, the higher the employer payroll tax paid. Therefore, the OLS notes that, in 2021, a low earner (minimum wage) would have a payroll tax liability to the employer of \$2,829 while a high earner, meeting the maximum wage (\$142,800) to which section 3111 of the Federal Insurance Contributions Act applies, would have a tax liability of \$12,240. The person earning the median weekly earnings as determined by the United States Bureau of Labor Statistics—Current Population Survey (\$51,168), would have a tax liability of \$5,230. The OLS notes that each of these tax liabilities may increase each year due to the inflation of the associated wages.

The OLS also notes that one caveat to this analysis is that currently the employer unemployment insurance (UI) contribution rates for FY 2021 are set by column “B” of the Experience Rating Tax Table. However, given that during COVID-19 the UI Fund borrowed from the federal government to keep the fund solvent, consequently, the taxes on employers for FY 2022 would be the taxes indicated in column “E” plus the 10% surcharge currently provided, imposing the highest level of UI taxes provided by law. However, recent law delayed increases in employer UI taxes related to benefits paid during COVID-19 pandemic state of emergency. So instead of increasing to the “E” plus the 10% surcharge, employer UI contributions for FY 2022 will be the rates set by column “C”, FY 2023 contributions will be set by Column “D”, and FY 2024 will be set by column “E”. The result being less State CBT and GIT revenue loss from the bill in these years than otherwise would have been incurred. Beginning in FY 2025, employer contribution rates will return to their statutory levels and remain in place until the Unemployment Compensation Fund is replenished and federal loans are repaid.

While the OLS cannot project the UI tax rate paid by all individual employers for FY 2022 or for subsequent years, for purposes of illustration, it can be reasonably assumed that the average employer UI tax rate would fall near the midpoint tax rate between the “C” and “E” columns, with CBT and GIT revenue losses increasing over time because of the higher employer UI taxes paid. Therefore, the OLS estimates that the hiring of each qualified employee under this program, inclusive of this assumption on the employer UI tax rate, may result in an average tax credit for the employer of between \$3,042 and \$12,547 annually per qualified employee based on the same salary assumptions as above as well as holding steady all other current employer payroll tax rates and taxable wage bases.

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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.).