

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE COMMITTEE SUBSTITUTE FOR **SENATE, Nos. 2050 and 2090**

STATE OF NEW JERSEY

DATED: SEPTEMBER 22, 2020

The Senate Budget and Appropriations Committee reports favorably a committee substitute for Senate Bill No. 2050 and Senate Bill No. 2090.

This committee substitute excludes military pay for service in a combat zone or for hospitalization as the result of injury while serving in a combat zone from taxable gross income under the New Jersey gross income tax.

The substitute uses federal definitions of combat zone pay to exclude from New Jersey taxation the same pay that is excluded from federal income taxation. Under federal law, enlisted members and warrant officers (commissioned and noncommissioned) may exclude from taxable income all pay received for any month during any part of which they served in a combat zone or were hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone. The same exclusion is allowed for commissioned officers (other than warrant officers), subject to a cap based on the highest rate of basic pay that enlisted personnel may receive.

A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that the bill will result in an indeterminate loss of revenue to the Property Tax Relief Fund. The magnitude of the impact on State revenues would vary annually and fluctuate according to future U.S. military deployments.

The OLS cannot quantify the fiscal impact of the bill because of variations in compensation paid to members of the Armed Forces, National Guard, and Reserves and the variation in compensation based on pay grade. Additionally, the OLS does not have data on the number of New Jersey residents deployed to combat zones.

The Internal Revenue Code provides an exclusion for active duty pay and combat pay earned by a member of the Armed Forces and

others for each month the member served in a combat zone. This bill excludes the same amount of income earned by a member of the Armed Forces from State gross income tax.