

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 2949
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: SEPTEMBER 28, 2020

SUMMARY

Synopsis: Increases gross income tax rate from 8.97 percent to 10.75 percent on income between \$1,000,000 and \$5,000,000, and provides up to \$500 tax rebate to eligible taxpayers.

Type of Impact: Annual State revenue gain to Property Tax Relief Fund;
Annual State expenditure increase from General Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2021</u>	<u>FY 2022 and Thereafter</u>
Annual State Revenue Gain	\$414 million to \$427 million	\$390 million to \$450 million
Annual State Cost Increase	\$0	At least \$300 million

- The Office of Legislative Services (OLS) estimates that this bill will increase FY 2021 gross income tax revenue by \$414 million to \$427 million; however, the bill’s revenue impact in fiscal years thereafter will be partially offset by the cost of the rebate program established by the bill. Gross income tax revenue in FY 2022 and FY 2023 is expected to increase by \$390 million to \$450 million annually, and the rebate program is anticipated to cost at least \$300 million annually.
- The OLS notes that gross income tax revenue is dedicated to the State’s Property Tax Relief Fund. Appropriations from the State’s General Fund will be necessary to support the rebate program.

BILL DESCRIPTION

This bill increases the marginal gross income tax rate applicable to taxpayers with gross income exceeding \$1 million in taxable years beginning on or after January 1, 2020.

The marginal gross income tax rate under current law is 8.97 percent for income between \$1 million and \$5 million, and 10.75 percent for income over \$5 million. This bill applies the 10.75 percent rate to gross income exceeding \$1 million.

The bill also provides to eligible gross income taxpayers a tax rebate of either \$500 or, if the taxpayer had a gross income tax liability less than that for the tax year, the amount of actual tax paid. The rebate is subject to annual appropriations by the Legislature.

To be eligible for the rebate the taxpayer must be a resident of the State, have at least one dependent child, have a gross income tax liability greater than zero, and have gross income not exceeding:

\$150,000 if (1) married and filing jointly, (2) filing as a head of household, or (3) filing as a surviving spouse; or

\$75,000 if (1) married and filing separately, or (2) individuals filing as a single taxpayer.

The director of the Division of Taxation will issue rebates to eligible taxpayers between July 1 and July 31 of the subsequent taxable year, or between July 1 and December 31 of the subsequent taxable year for taxpayers who were granted gross income tax return extensions.

FISCAL ANALYSIS

EXECUTIVE BRANCH

As part of the Governor's revised FY 2021 budget proposal, the Executive projected an increase in the GIT rate for income between \$1 million and \$5 million would yield \$390 million in additional revenue for FY 2021. Based on information shared informally by the Executive with the OLS, the Executive is projecting the cost of the rebate program at \$335 million annually.

OFFICE OF LEGISLATIVE SERVICES

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The OLS is projecting additional FY 2021 revenues of \$414 million to \$427 million from the increasing the gross income tax (GIT) marginal rate on incomes in excess of \$1 million, but below \$5 million, from 8.97 percent to 10.75 percent. Based on the Department of the Treasury's TY 2016 Statistics of Income data, roughly 19,500 taxpayers had gross income in excess of \$1 million. Part of that income is already subject to a 10.75 percent marginal rate if that income exceeds \$5 million. Thus, the OLS extracted out income for those taxpayers that would not be subject to the higher rate (less than \$1 million) and income that is already subjected to a 10.75 percent marginal rate. After accounting for growth in income since TY 2016 and recent economic conditions, factoring in non-resident returns and the credit allowed for taxes paid to other jurisdictions, and a boost from imposing the increased marginal rate retroactively to January 1, 2020, the OLS projects the marginal rate increase to yield additional FY 2021 revenue between \$414 million to \$427 million. FY 2022, FY 2023, and each fiscal year thereafter will not benefit from retroactivity as FY 2021 did. Thus, the OLS is projecting additional revenue for FY 2022 and FY 2023 between \$390 million to \$450 million annually.

The OLS estimates that the rebate program will cost the State at least \$300 million annually, starting in FY 2022. Based on information available in the TY 2016 Statistics of Income report and information provided by the Executive, up to 800,000 qualified taxpayers will be eligible for

the rebate program established by the bill. A little more than half of those qualified taxpayers would likely receive a maximum rebate of \$500. The other qualified taxpayers are assumed to have gross income tax liabilities of less than \$500 and receive a partial rebate.

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.).