

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 3809
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: JUNE 11, 2021

SUMMARY

Synopsis: Allows credit against corporation business tax and gross income tax liability for employing persons with a developmental disability.

Type of Impact: Annual State revenue loss across both the General Fund and Property Tax Relief Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2023 and Thereafter</u>
Annual State Revenue Loss	Indeterminate

- The Office of Legislative Services (OLS) finds that this bill could reduce State revenues by approximately \$90.6 million annually if all claimants under the current extended employment tax credit would gain the maximum benefit from the credit established by the bill.
- More taxpayers, and their employees with developmental disabilities, may qualify for the bill's tax credit and subsequent calculation of that credit compared to the State's current sheltered workshop tax credit, which in turn could yield a revenue impact that is greater than the \$90.6 million extrapolated from the State's extended employment tax credit data. Conversely, the bill imposes a cap of \$60,000 per employer per year that does not exist for the current program, which may reduce the above estimate.

BILL DESCRIPTION

This bill allows taxpayers to claim a credit against their corporation business tax liability or gross income tax liability in the amount of 10 percent of salary and wages paid to an employee with a developmental disability. The credit is capped at \$3,000 per employee, and the total credit is capped at \$60,000 per taxpayer per year. Taxpayers are prohibited from claiming the credit allowed by this bill if in the same year they claim a Sheltered Workshop Tax Credit for the same employee.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that this bill could reduce State revenues by as much as \$90.6 million annually. The actual impact of the bill's tax credit on State revenues could be much higher or lower depending on a multitude of factors discussed below.

Currently, the State provides a tax credit of up to \$1,000 for each extended employee of the taxpayer who specifically works under a special license that allows that employee to work for less than the minimum wage rate and is under the supervision of extended employment services. Extended employment services, formerly known as "sheltered workshops," are occupation-oriented facilities operated by non-profit agencies that, except for staff, employ only individuals with disabilities. Taxpayers who claim the current sheltered workshop credit would likely qualify for the credit established by the bill. According to the 2021 New Jersey Tax Expenditure Report, the Executive projects the sheltered workshop tax credit at \$45.3 million for FY 2022. If all taxpayers that would have claimed the \$1,000 credit instead claim a \$3,000 credit for each employee, the bill could result in tax credits totaling \$135.9 million, with a net impact of \$90.6 million.

Certain properties of the bill's tax credit, including limits on a taxpayer's total credit to \$60,000, non-refundable provisions, and the inability for a taxpayer to carry-forward any amounts of the tax credit that are unused, will mitigate the overall fiscal impact of the bill on State revenues.

The OLS cautions that employees who are included in the calculation of the sheltered workshop tax credit may underrepresent the population of employees who a taxpayer may claim under the bill's new tax credit. For example, there may be employees with developmental disabilities who work in "community-integrated employment" instead of under the jurisdiction of extended employment services. Community-integrated employment refers to jobs held by individuals with disabilities in workplace settings where the majority of persons employed are not persons with disabilities. Thus, more taxpayers, and their employees with developmental disabilities, may qualify for the bill's tax credit and subsequent calculation of that credit compared to the sheltered workshop tax credit, which in turn could yield a revenue impact that is greater than the \$90.6 million extrapolated from the State's sheltered workshop tax credit data.

Section: Revenue, Finance and Appropriations
Analyst: Jordan M. DiGiovanni
Revenue Analyst
Approved: Thomas Koenig
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.).