

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 4065 STATE OF NEW JERSEY 219th LEGISLATURE

DATED: NOVEMBER 15, 2021

SUMMARY

- Synopsis:** Revises gross income tax credit for child and dependent care expenses for tax year 2021.
- Type of Impact:** FY 2022 State revenue loss to Property Tax Relief Fund.
- Agencies Affected:** Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2022</u>
State Revenue Loss	\$76.2 million

- The Office of Legislative Services (OLS) notes the Executive originally proposed a similar expansion of the State's child and dependent care tax credit as part of the FY 2022 Governor's Budget. That expansion of the program was originally anticipated to reduce revenues by an additional \$17.2 million annually. Based on changes to the federal credit, which affects the calculation of the State's credit, the Executive revised its estimate to \$76.2 million for TY 2021.
- The OLS ultimately agrees with the Executive's estimate for the temporary expansion of the State's child and dependent care tax credit.

BILL DESCRIPTION

This bill revises the State's child and dependent care tax credit, which is based on the federal credit and is for taxpayers who incur expenses for household services and the care of a child or dependent to enable the taxpayer to be employed. This change would only affect Tax Year 2021.

The bill revises the income requirements for the credit so that taxpayers who have New Jersey taxable income of \$150,000 or less for the tax year can claim the credit compared to \$60,000 or less under current law. In addition, the bill removes the current caps of \$500 for employment-

related expenses paid by the taxpayer for one child or dependent and \$1,000 for employment-related expenses paid by the taxpayer for two or more children or dependents.

The bill revises the tax credit's taxable income eligibility requirements as follows: not over \$30,000 to receive a New Jersey tax credit equal to 50 percent of the federal credit; over \$30,000 but not over \$60,000 to receive 40 percent of the federal credit; over \$60,000 but not over \$90,000 to receive 30 percent of the federal credit; over \$90,000 but not over \$120,000 to receive 20 percent of the federal credit; and over \$120,000 but not over \$150,000 to receive 10 percent of the federal credit.

The bill revises the credit so that it will be refundable. This means that a taxpayer could receive a cash refund if the credit amount is in excess of their gross income tax liability.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive originally proposed a similar expansion of the State's child and dependent care tax credit as part of the FY 2022 Governor's Budget. As noted on page 53 of the FY 2022 Budget in Brief, the child and dependent care tax credit produces a revenue loss of about \$11.5 million annually. That expansion of the program was originally anticipated to reduce revenues by an additional \$17.2 million annually. However, the federal American Rescue Plan Act of 2021 made several changes to the federal credit for TY 2021 only, which affects the calculation of the State's credit. Based on the changes to the federal credit, the Executive revised its estimate to \$76.2 million for TY 2021 (FY 2022 impact).

OFFICE OF LEGISLATIVE SERVICES

The OLS ultimately agrees with the Executive's estimate for the temporary expansion of the State's child and dependent care tax credit. The OLS calculated the temporary expansion of the credit to reduce revenues by \$82.6 million for TY 2021, which is slightly more than the Executive's estimate. The OLS does not have access to data for the State's existing credit, so TY 2018 New Jersey Statistics of Income data from the federal Internal Revenue Service were utilized to review the Executive's estimates. Differences in data sources and methodology contribute to the minor difference in the Executive's and the OLS's estimates.

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.).