LEGISLATIVE FISCAL ESTIMATE

SENATE, No. 676

STATE OF NEW JERSEY
220th LEGISLATURE

DATED: FEBRUARY 16, 2022

SUMMARY

Synopsis: Indexes for inflation taxable income brackets under New Jersey gross income tax.

Type of Impact: Annual loss of gross income tax revenue deposited into the Property Tax Relief Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	FY 2023	FY 2024 and Annually Thereafter
State Revenue Loss	$7.5 million to $22 million	$150 million to $440 million, compounding annually

- The Office of Legislative Services (OLS) estimates this bill may reduce annual gross income tax (GIT) revenues deposited into the Property Tax Relief Fund by between $150 million to $440 million in the first full fiscal year in which it is effective, which amounts will compound each fiscal year thereafter. This estimate assumes that the consumer price index for all urban consumers (CPI-U) remains between two percent and six percent annually.

- A smaller revenue loss between $7.5 million and $22 million may occur in the fiscal year in which the bill first takes effect, reflecting the impact of decreased income tax withholdings.

BILL DESCRIPTION

This bill indexes for inflation the taxable income brackets under the New Jersey gross income tax. The inflation adjustment for taxable income brackets is the national CPI-U as prepared by the United States Department of Labor. The bill compares an annual inflation measure from the year prior to the one for which taxes will be imposed to a base year measure from the year prior to the one in which the bill is enacted. This delay allows the Director of the Division of Taxation to determine the adjusted amounts when the tax year begins.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates this bill may reduce GIT revenues deposited into the Property Tax Relief Fund by $150 million to $440 million in the first full fiscal year in which it is effective, assuming that CPI-U inflation falls between two percent and six percent. This effect would compound in subsequent years so long as CPI-U is greater than zero, meaning that annual tax collections eventually could be reduced by over $1 billion if inflation remains high for several years.

The impact of the bill is entirely dependent on future changes in the CPI-U, which averaged about 2 percent for the relevant adjustment periods for the five years through August 2020. From January 2021 to January 2022, the CPI-U jumped to 7.5 percent year-over-year following price increases for items such as food, energy, and motor vehicles. It is uncertain whether the current high rates of inflation will be transitory or persist for multiple years.

Assuming that indexing would begin on January 1, 2023, there may be a relatively small tax revenue loss through six months of withholding tax receipts in FY 2023, if the Director of the Division of Taxation adjusts employee wage withholding requirements. Given the partial impact in the first year, indexing may only reduce GIT collections by between $7.5 and $22 million in FY 2023, depending on the CPI-U adjustment. After FY 2023 the entire fiscal year will be affected, and as a result, estimated and final payments in addition to withholding payments will be decreased throughout the year.

The impact of indexing the marginal tax rates will vary by each taxpayer's income level, but taken together will have less than half the percentage impact of the annual CPI-U inflation growth rate. In any given year, most income will remain in the same bracket as the previous; only the relatively small amounts just above a bracket boundary will shift to lower tax brackets in any given year. If inflation persists at a high level for several years, these shifts may accumulate into much larger State revenue losses. While it is possible that CPI-U rates will revert to pre-pandemic levels of roughly two percent, this analysis also assumes a CPI-U rate of six percent based on current economic conditions. Accordingly, the OLS estimate assumes an annual indexing impact of about 0.9 percent to 2.6 percent per year, given a two percent to six percent average CPI-U rate for 12-month periods ending in August of each year. Applying this rate against total gross income tax revenues, which were certified at roughly $16.9 billion for FY 2022, yields an estimated revenue reduction of between $150 million and $440 million per year.

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.).