

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 100

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: JUNE 17, 2004

The Assembly Appropriations Committee reports favorably Assembly Bill No. 100, with committee amendments.

Assembly Bill No. 100, as amended, changes the homestead property tax rebate programs and increases the gross income tax for taxpayers with taxable incomes in excess of \$500,000, implementing the property tax relief proposal under the Governor's "FAIR -- Fair and Immediate Relief" program.

The bill folds the NJ SAVER rebate program into the Homestead Property Tax Rebate program for homeowners. All NJ SAVER rebate applicants will be paid under the new increased homestead rebate program. The bill increases homestead rebates for senior and disabled homeowners, and other homeowners are included in higher rebate amounts if they have annual gross income of \$200,000 or less. Under the bill, homestead rebate amounts will range from \$1,200 to \$500 depending on taxpayers' annual gross income. The bill increases homestead rebates for tenants by \$50. Starting with homestead rebates for tax year 2004, the bill bases homestead rebates for homeowners and tenants rebates on qualifications being met on October 1 annually, and property taxes and property taxes paid through rent used to determine rebate amounts will be based on the equivalent of full year payments.

As a source to pay the increased homestead rebates, this bill imposes an adjustment in the rate of gross income tax for taxpayers with taxable incomes in excess of \$500,000 retroactive to January 1, 2004. For taxable income above \$500,000 the bill adds a new marginal tax rate of 8.97%. The bill imposes a withholding tax rate of 12% on salary and wage income paid in excess of \$500,000 during taxable year 2004, beginning as soon as practicable but no later than September 1, 2004.

As amended and reported by the committee, this bill is identical to Senate Bill No. 1678 of 2004 as amended and reported by the Senate Budget and Appropriations Committee.

FISCAL IMPACT:

The Governor's Office has released documents estimating the impact of the FAIR program. These estimates indicate that the revision to the Homestead Property Tax Rebate program and to the NJ SAVER program is estimated to increase State expenditures to homeowners from about \$700 million to about \$1.5 billion, or an increase of about \$800 million in State Fiscal Year 2005. They estimate that nearly 460,000 senior citizen homeowners will see their maximum rebate amount increase to \$1,200 and that nearly 1.4 million non-senior homeowners will receive maximum rebates ranging from \$800 to \$500.

The documents released by the Governor's office indicate that the increase in marginal income tax rates for taxpayers with taxable income in excess of \$500,000 will raise \$800 million in additional revenues in State Fiscal Year 2005. Approximately 28,500 taxpayers (according to Tax Year 2001 data from the Division of Taxation's *Statistics of Income*) will be affected by the rate increase.

The Office of Legislative Services (OLS) concurs with the Governor's estimates of the cost impact of this bill. The OLS agrees that revised rebate program would increase State costs by about \$800 million in Fiscal Year 2005. The OLS notes that growth factors in the bill would likely increase annual costs by about \$10 million each year thereafter.

The OLS believes the Governor's estimate of the increased revenue generated by this bill is reasonable, but the OLS estimates a somewhat greater revenue amount in State Fiscal Year 2005 and the OLS also estimates a decline in revenue for Fiscal Year 2006. Based on OLS extrapolations from tax year 2001 data from the Division of Taxation's *Statistics of Income*, the OLS estimates the marginal income tax rate increase under this bill may generate an additional \$850 million in revenue for the Property Tax Relief Fund in Fiscal Year 2005. As estimate, about \$660 million of the \$850 million amount is from the increased baseline annual revenue stream, while about \$190 million is a one-time "windfall" due to the retroactive timing of the bill back to the beginning of tax year 2004. This windfall amount will not occur again in Fiscal Year 2006. The OLS estimates that the baseline annual revenue stream will grow to about \$725 million in Fiscal Year 2006 and should continue to grow annually thereafter relative to the growth in incomes for higher income taxpayers. The OLS also notes that incomes and tax liabilities for higher income taxpayers are particularly volatile and that the State may face significant increases or decreases in some years from this revenue source.

COMMITTEE AMENDMENTS:

The amendments clarify that for the homestead owner rebates claimed for tax year 2003, the current application of the proportionate of property taxes paid on two different homesteads owned for different parts of the year will apply. The October 1 qualification date and the

full year equivalent of property taxes paid on the October 1 homestead will begin in tax year 2004.

The amendments increase tenant rebates by \$50.

The amendments add authority for the Director of the Division of Taxation to request owners of residential rental property upon which ad valorem property taxes are not paid to provide the names of tenants of these rental properties. This information will aid the director in ensuring that tenants in these properties that may be exempt from property taxes, are under property tax abatements, or make payments in lieu of property taxes, do not claim homestead rebates based upon their rent.

The amendments provide the bill will not take effect until the three other bills that are parts of the Governor's "FAIR -- Fair and Immediate Relief" program are also enacted. Those bills establish lower limits for yearly local budget appropriations increases, revise the calculation of budget caps and reduce the allowable surplus for public school districts, and establish the Property Tax Relief Task Force.