LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 12

STATE OF NEW JERSEY
217th LEGISLATURE

DATED: AUGUST 4, 2016

SUMMARY

Synopsis: Adjusts certain State taxes to support strengthened investments in public and private assets in this State.

Type of Impact: Annual loss of revenue to the Property Tax Relief Fund; annual gain in General Fund revenue.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
State Revenue Losses to General Fund (Estate Tax) and Property Tax Relief Fund:						
Estate Tax	($16,000,000)	($109,000,000)	($273,000,000)	($377,000,000)	($459,000,000)	($552,000,000)
GIT (PTRF) Vet's Excl.	$0	($23,000,000)	($23,000,000)	($23,000,000)	($23,000,000)	($23,000,000)
Fuel Tax Deduction	($7,500,000) to ($12,000,000)	($15,000,000) to ($24,000,000)	($15,000,000) to ($24,000,000)	($15,000,000) to ($24,000,000)	($15,000,000) to ($24,000,000)	($15,000,000) to ($24,000,000)
Retirement Income	$0	($60,000,000) to ($90,000,000)	($70,000,000) to ($105,000,000)	($80,000,000) to ($120,000,000)	($85,000,000) to ($130,000,000)	($135,000,000) to ($193,000,000)
EITC	($122,000,000)	($124,000,000)	($127,000,000)	($130,000,000)	($133,000,000)	($137,000,000)
Total Loss	**($145,500,000) to ($150,000,000)**	**($331,000,000) to ($370,000,000)**	**($508,000,000) to ($552,000,000)**	**($625,000,000) to ($674,000,000)**	**($715,000,000) to ($769,000,000)**	**($862,000,000) to ($929,000,000)**
State Revenue Gain to General Fund:						
12.85% PPGR	$947,600,000	$1,137,900,000	$1,137,900,000	$1,137,900,000	$1,137,900,000	$1,137,900,000
7% Non-Motor	$25,900,000	$31,100,000	$31,100,000	$31,100,000	$31,100,000	$31,100,000
4 cent/gal Diesel	$24,700,000	$39,600,000	$39,600,000	$39,600,000	$39,600,000	$39,600,000
Total Gain	**$998,200,000**	**$1,208,600,000**	**$1,208,600,000**	**$1,208,600,000**	**$1,208,600,000**	**$1,208,600,000**
Net Total State Revenue All Funds	**$848,200,000 to $852,700,000**	**$838,600,000 to $877,600,000**	**$656,600,000 to $700,600,000**	**$534,600,000 to $583,600,000**	**$439,600,000 to $493,600,000**	**$279,600,000 to $346,600,000**

Note: GIT is gross income tax. PTRF is Property Tax Relief Fund. EITC is Earned Income Tax Credit. PPGR is Petroleum Products Gross Receipts tax.

Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, New Jersey 08625

– OLS –

Legislative Budget and Finance Office
Phone (609) 847-3105
Fax (609) 777-2442
www.njleg.state.nj.us

- The Office of Legislative Services (OLS) estimates this bill will significantly reduce estate tax and gross income tax revenues, while also significantly increasing certain fuels tax revenues. The net impact to total State revenues from these changes is estimated at a gain of between $848,200,000 to $852,700,000 in FY 2017, declining thereafter to an estimated gain of between $279,600,000 to $346,600,000 in FY 2022.

- The revenue reductions will be phased in over time, starting with an estimated range of revenue losses between $145,500,000 to $150,000,000 in FY 2017 and rising to an estimated range of revenue losses between $862,000,000 to $929,000,000 in FY 2022.

- The revenue increases begin in FY 2017 with an estimated gain of $998,200,000 and stabilizing to an estimated gain of $1,208,600,000 in FY 2018 and thereafter from the various fuels tax increases.

BILL DESCRIPTION

Assembly Bill No. 12 (1R) of 2016 bill adjusts various State taxes as follows:

Estate Tax

The bill phases out the New Jersey estate tax over four years by increasing the tax exclusion threshold under the New Jersey estate tax, first by replacing the current $675,000 threshold with a “true” exclusion amount initially established at $2.0 million for decedents dying on or after January 1, 2017, and incorporating the federal applicable exclusion amount determined pursuant to the federal Internal Revenue Code for decedents dying on or after January 1, 2018 and finally eliminating the estate tax for decedents dying on and after January 1, 2020. Although the federal exclusion amount for calendar year 2016 is $5,450,000, that exclusion amount will increase in calendar year 2018 and 2019 as it is subject to annual cost - of - living adjustments determined pursuant to the current federal estate law.

The current New Jersey estate tax is determined by reference to a repealed federal credit against a system of federal estate taxation that no longer exists. The former federal credit was part of a national revenue-sharing policy, no longer in effect, that was originally designed to provide states a portion of what would otherwise have been a high-rate federal tax. Because the mechanics of the current tax are a remnant of that former federal imposition, the New Jersey estate tax is initially imposed at a rate of 37 percent until all the tax that would have been imposed on the value of the estate below $675,000 is made up. This bill eliminates that tax rate “bump” and provides a true exclusion amount by abandoning the references to the old federal credit and establishing the necessary mechanics under New Jersey law to eliminate the tax imposed on estate values below the statutory exclusion amount. Under this bill, until the estate tax expires, the estate tax will be imposed on the New Jersey property of nonresident decedents. Currently, the estate tax is only imposed on the property of resident decedents. The amendment uses a “ratio” method: the estate of a nonresident computes estate tax as though a State resident, then pays the proportion of that liability that the estate’s New Jersey property is of the estate’s total property. This change takes effect for nonresident decedent estates on January 1, 2017.

Veteran's Personal Exemption

The bill provides an additional annual personal exemption under the New Jersey gross income tax of $3,000 for any individual New Jersey gross income taxpayer who is a veteran honorably discharged or released under honorable circumstances from active duty in the Armed Forces of the United States, a reserve component thereof, or the National Guard of New Jersey in a federal active duty status.

Personal Motor Vehicle Fuel Tax Deduction

The bill provides for an annual gross income tax deduction for State fuel taxes paid by taxpayers on purchases of motor fuel for the operation for personal use of the taxpayer's motor vehicles and not otherwise reimbursed. The deduction will be allowed for taxpayers in any filing status with annual gross income of not more than $100,000, and will be capped at $250 for the 2016 taxable year and at $500 for each taxable year thereafter.

Pension and Retirement Income Exclusion

The bill increases the New Jersey gross income tax pension and retirement income exclusions fivefold over four years. This will reduce the State's personal income tax on retirement income of certain retired taxpayers in this State.

Generally under current law, taxpayers with $100,000 or less of annual income, who are at least 62 years old, may claim a pension and retirement income exclusion of up to $20,000 for joint filers, $15,000 for individuals, and $10,000 for married but filing separately.

This bill increases the gross income tax pension and retirement income exclusion to $100,000 for joint filers, $75,000 for individuals, and $50,000 for married but filing separately. The bill phases in the five-fold exclusion increase over four years as follows:

Filer Type	Present	2017	2018	2019	2020
Joint	$20,000	$40,000	$60,000	$80,000	$100,000
Individual	$15,000	$30,000	$50,000	$60,000	$75,000
Separate	$10,000	$20,000	$30,000	$40,000	$50,000

Currently, the pension and retirement income exclusions are not allowed to a taxpayer who has gross income of more than $100,000 for the taxable year. For taxable years beginning on or after January 1, 2021, the bill allows a taxpayer with income of more than $100,000 but not over $125,000 to exclude 50 percent of the amount of pension and retirement income otherwise allowed and a taxpayer with more than $125,000 but not more than $150,000 of gross income to exclude 25 percent of the amount otherwise allowed.

Earned Income Tax Credit

The bill increases the New Jersey Earned Income Tax Credit (NJ EITC) to 40 percent of the federal benefit amount beginning in Tax Year 2016. The NJ EITC program, which piggy-backs on the federal EITC program, currently provides a refundable earned income tax credit under the State gross income tax equal to 30 percent of the federal benefit amount. To claim a credit, taxpayers must first file for the federal EITC. Eligibility for the program is determined by taxpayer income, filing status, and the number of qualifying children.

Petroleum Products Gross Receipts Tax

The bill provides for increases in the petroleum products gross receipts tax rates, which, either by statutory or constitutional dedication, will finance funding for the State's transportation infrastructure.

Currently, the petroleum products tax is imposed at the rate of 2.75 percent on gross receipts from the first sale of petroleum products in New Jersey. In the case of motor fuels, aviation fuels, and heating fuels (home heating fuels are exempt) this rate is converted to $0.04 per gallon.

This bill increases the base rate on petroleum products, other than highway fuel and other than aviation fuel, from 2.75 percent to 7 percent of gross receipts, and increases the base rate on highway fuel from 2.75 percent to 12.85 percent of gross receipts. Under the petroleum products gross receipts tax provisions "highway fuel" means gasoline, blended fuel that contains gasoline or is intended for use as gasoline, liquefied petroleum gas, and diesel fuel, blended fuel that contains diesel fuel or is intended for use as diesel fuel, and kerosene, other than aviation grade kerosene. The starting date of the new petroleum products gross receipts tax rates for highway fuel, other than diesel fuel, will be the "2016 implementation date," defined as the later of September 1, 2016, or the 15th day after the date of enactment of this bill. The rate increase on diesel fuel will occur in two steps: (1) with 70 percent of the rate increase taking effect on January 1, 2017, and (2) the full rate increase effective on July 1, 2017.

The 12.85 percent tax on gasoline (which excludes aviation gasoline), gasoline equivalents and liquefied petroleum gas is converted to a cents-per-gallon rate based on the retail price of gasoline before the imposition of State and federal tax. The 12.85 percent tax on diesel fuel, diesel fuel equivalents and kerosene (other than aviation grade kerosene), is converted to a cents-per-gallon rate based on the retail price of number 2 diesel before tax. Initially, the diesel and kerosene rate will be zero; on and after January 1, 2017 it will be 70 percent of the 12.85 percent rate, and on and after July 1, 2017 it will be taxed at the 12.85 percent rate. These cents-per-gallon rates can be adjusted quarterly, but cannot fall below the rates determined for the quarter beginning July 1, 2016.

The bill provides a cap for the total tax on highway fuel under the petroleum products gross receipts tax and the motor fuel tax. The State Treasurer and the Legislative Budget and Finance Officer will calculate an amount based on actual sales data from FY2016 as if taxed at the new tax rates; the 2016 motor fuel tax collections of highway fuel, plus the four cents per gallon petroleum products tax now in effect, plus the 23 cents per gallon new imposition under the petroleum products tax. This calculated amount is designated as the highway fuel cap amount.

Each fiscal year from 2018 through 2026 the State Treasurer will determine an adjusted tax rate to be imposed beginning each October 1 so that taxes collected from the motor fuels tax on highway fuel and petroleum products tax on highway fuel do not exceed the highway fuel cap amount for any fiscal year. This "true-up" provision will ensure that if the tax rates are too high and the State overcollects, then in the next year the rate must be adjusted down to account for the overcollection, and if the State undercollects then the rate is increased to account for the undercollection.

The 7 percent tax on fuel oil (exclusive of fuel oil used for home heating use) is converted to a cents-per-gallon rate based on the pretax retail price of number 2 fuel oil. These rates can be adjusted quarterly, but cannot fall below the rates determined for the quarter beginning July 1, 2016.

Initially, the highway fuels will be subject to an additional cents-per-gallon rate of four cents. On and after July 1, 2017 the additional rate on diesel fuel and kerosene will be raised to eight cents per gallon.

Aviation fuel (aviation gasoline and aviation grade kerosene), currently subject to a 4 cents per gallon tax, and imposed on common carriers in interstate and foreign commerce only on the "burnout" portion, will remain unchanged as imposed under current law.

Review Council

The bill establishes a three-member review council, composed of the State Treasurer, the Legislative Budget and Finance Officer, and a third public member selected by both. The review council will report to the Governor and the Legislature by January 15, 2020, on the council's consensus estimate of the increase or decrease in State revenues caused by each section of this bill during the three prior fiscal years compared to the estimates at the time of enactment.

The review council will monitor on an ongoing basis the actions of the Legislature that halt, delay or reverse the implementation of the provisions of the bill. If implementation is impeded (by, for example, delaying a phase-in of an increased tax exclusion, freezing a scheduled rate reduction, or repealing one of the bill's provisions), the council will certify that this has occurred to the Director of the Division of Taxation. This certification triggers the cessation of imposition of one of the components of the petroleum products gross receipts tax, and collection of that part of the tax ends.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates this bill will significantly reduce estate tax and gross income tax revenues, while also significantly increasing certain fuels tax revenues. The net impact to total State revenues from these changes is estimated at a gain of between $848,200,000 to $852,700,000 in FY 2017, declining thereafter to an estimated gain of between $279,600,000 to $346,600,000 in FY 2022. The revenue reductions will be phased in over time, starting with an estimated range of revenue losses between $145,500,000 to $150,000,000 in FY 2017 and rising to an estimated range of revenue losses between $862,000,000 to $929,000,000 in FY 2022. The revenue increases begin in FY 2017 with an estimated gain of $998,200,000 and stabilizing to an estimated gain of $1,208,600,000 in FY 2018 and thereafter from the various fuels tax increases. These estimates are discussed in greater detail below.

Estate Tax (GF)

The OLS estimates this bill would reduce annual estate tax revenues deposited into the General Fund by $16.0 million in FY 2017, $109.0 million in FY 2018, $273.0 million in FY 2019, $377.0 million in FY 2020, $459.0 million in FY 2021, and $552.0 million in FY 2022. The amount of revenue foregone to the General Fund will continue to change with the value of estates.

Given that estates typically take nine months to complete the tax filing process and that tax payments may extend for several years, this bill would have a relatively small fiscal impact in FY 2017. The significant impact would begin in FY 2018 and would be fully phased-in during subsequent years. As the exclusion thresholds are phased up, the tax "bump" (that part of the tax imposed on estate values below the threshold amounts) would be replaced by a "true" tax exclusion amount each year. The OLS estimates the annual revenue loss at each step of the process as follows:

Estimated Impact of Estate Tax Change			
Fiscal Year	**Est. Estate Tax Revenue Current Law**	**Est. Estate Tax Revenue Under Bill**	**Est. Revenue Loss Under Bill**
2017	$464,000,000	$448,000,000	$16,000,000
2018	$485,000,000	$376,000,000	$109,000,000
2019	$507,000,000	$234,000,000	$273,000,000
2020	$530,000,000	$153,000,000	$377,000,000
2021	$552,000,000	$93,000,000	$459,000,000
2022	$579,000,000	$27,000,000	$552,000,000
After 2022	The amount of revenue forgone will continue to change with the value of estates.		

These estimates are based on Treasury data from FY 2014, the most recent year for which OLS has tax collections data by size of estate, during which the estate tax accounted for $320.0 million in revenue. The OLS does not have estate tax data for the two most recent years, FY 2015 and FY 2016, but based on strong growth in overall estate and inheritance revenues and historical patterns suggesting greater growth in the estate tax portion, the OLS estimates 18 percent annual growth in total estate tax revenue during those years, yielding estimated collections of $444.0 million in FY 2016. For FY 2017 and thereafter the OLS assumes annual growth of 4.5 percent, in line with overall average growth in the last decade. For the phase-in years, the OLS applied the annual growth to estate tax amounts at the different levels of the value of estates, as detailed in the Treasury data. The impact of the tax changes under this bill was further distributed across multiple years based on indications that estate tax payments are made over several years rather than in one lump sum. In addition, the OLS estimated the impact of eliminating the "bump" using the number of estates at each level applied to the tax table amounts from the Division of Taxation's estate tax worksheet.

Data from the Department of the Treasury indicate that this bill, once fully implemented, would eliminate the estate tax on approximately 3,500 estates annually. This number equals about 5 percent of the approximately 70,000 deaths reported by the Department of Health each year in the State.

The bill also imposes the estate tax on the property of certain nonresident decedents. While this provision should increase State tax revenue during the years before the estate tax is fully repealed, the OLS has no data with which to estimate the potential revenue gain for the years prior to full repeal of the estate tax.

The OLS notes that the estate tax is a volatile revenue source. Much of that volatility reflects assets such as stocks, which can see sharp increases and decreases in value, as measured by the major stock indexes such as the Standard and Poor's 500 index. Accordingly, a prolonged or severe "bear" or "bull" market could indicate subsequent downward or upward volatility in the potential value of the forgone revenues under this bill.

Gross Income Tax – Veteran's Exclusion (PTRF)

The OLS estimates the $3,000 exclusion for certain veterans under this bill may reduce GIT revenues by an estimated $23,000,000 annually. The State's published gross income tax statistics do not reveal how many veterans currently face a GIT liability each year, so the potential number of taxpayers who may benefit from this additional personal exemption is unknown. However, a $3,000 personal exemption may provide an average tax benefit of $105.00 when assuming an average marginal tax rate of 3.50 percent. According to the federal Department of Veterans Affairs, there were 428,396 living veterans in New Jersey in 2014. While a majority of seniors do not have an annual New Jersey GIT liability, about 55 percent of

New Jersey veterans are age 65 or older. Low income joint filers with less than $20,000 gross income ($10,000 for single or separate filers) also do not owe State GIT. Accordingly, it is possible that more than half of all New Jersey veterans do not currently have a State GIT liability and would therefore not gain a tax benefit from the $3,000 veterans exemption under this bill. Assuming about 220,000 veterans currently have a State GIT liability and would therefore gain an estimated average tax benefit of $105.00 from a $3,000 personal exemption, the potential tax savings, or potential State revenue loss, may equal about $23,000,000 annually.

Gross Income Tax – Fuels Tax Deduction (PTRF)

The OLS estimates the GIT deduction for certain motor fuels expenditures may reduce revenues by between $7,500,000 to $12,000,000 in FY 2017, rising to between $15,000,000 to $24,000,000 in FY 2018 and thereafter. Precise figures on the number of potential taxpayers who may claim the deduction are not available. According to data from the Division of Taxation's annual *Statistics of Income (SOI)* publication, there are about 2.0 million taxable returns with income below $100,000, the income limit under this bill. Tax benefits will vary widely based on applicable marginal tax rates and the amount deducted. A single filer with income between $75,000 and $100,000 deducting the bill's $500 maximum would see a tax benefit at the 6.37 percent marginal tax rate of $31.85. A taxpayer with $25,000 income deducting the $500 maximum would see a tax benefit at the 1.75 percent marginal rate of $8.75. Smaller claimed deductions would yield lesser benefits. A married joint filer with $75,000 income claiming a $200 deduction (one vehicle at 13,000 annual miles at 24 miles per gallon taxed at 37 cents per gallon) would see a tax benefit at the 3.5 percent marginal rate of $7.00. Assuming the average tax benefit ranges between $7.50 to $12.00 per tax return for 2.0 million returns yields an estimated range of State revenue losses between $15,000,000 to $24,000,000 annually once the bill is fully implemented in the second year. The first year of the bill allows for half the maximum benefit, reducing the estimated FY 2017 revenue loss to between $7,500,000 to $12,000,000.

Gross Income Tax – Pension and Retirement Income (PTRF)

The OLS estimates the increase in the pension and retirement exclusion will yield a range of potential annual gross income tax revenue losses to the Property Tax Relief Fund. With the five-year phase-in period beginning on January 1, 2017, the bill may reduce FY 2018 revenues by between $60 million and $90 million, FY 2019 revenues by between $70 million and $105 million, FY 2020 revenues by between $80 million and $120 million, FY 2021 revenues by between $85 million and $130 million, and FY 2022 revenues by between $135.0 million and $193.0 million. Thereafter revenue losses may grow by between 3.0 percent and 4.0 percent annually.

Precise estimates are not possible, as the OLS is extrapolating from aggregate data using Division of Taxation's annual *Statistics of Income (SOI)* publication. This data does not allow for a detailed analysis of individual returns, nor an understanding of the interactions between gross income, pension and retirement income, and the statutory exclusion levels for individual returns. Using the SOI's aggregate data in broad income bands, the OLS estimates current pension and retirement income exclusion levels and then projects the potential exclusion increases under the bill.

The OLS notes that average pension income for senior returns in gross income brackets under $100,000 varies from approximately $18,000 at the lower income levels to about $45,000 at the higher income levels, based on SOI data. Most senior taxpayers do not receive enough pension and retirement income to claim an exclusion near the new maximum levels proposed under this bill. Accordingly, most of the estimated revenue loss from this bill will occur in the first step of the five-year phase-in, followed by smaller incremental increases in subsequent years as the majority of taxpayers with gross income under $100,000 will have maximized their exclusion amount.

In comparison to the overall revenue losses estimated under this bill, the Division of Taxation's publication, *A Report on Tax Expenditures in New Jersey (February 2015),* reports that the current gross income tax exclusion for pension income and other retirement income reduces State revenues by an estimated $125.5 million annually. While this bill will increase the current maximum exclusion levels fivefold, it is projected to less than double the estimated revenue loss under current law for taxpayers with gross income under $100,000. Few of these taxpayers will be able to claim an exclusion near the new maximum levels under this bill. Most such taxpayers will claim exemptions substantially below the proposed maximum levels, and some unknown number of taxpayers who already exempt all their pension and other retirement income under current law will see no benefit from this bill.

Lastly, while the OLS expects the preponderance of the fiscal impact to begin in FY 2018 when taxpayers file their final returns in April of 2018 for the 2017 Tax Year, some revenue reductions may occur in the Spring of FY 2017, to the extent that certain taxpayers adjust their quarterly estimated payments downward in April and June of 2017. The OLS has no data on the value of senior taxpayer's quarterly estimated payments, nor the extent to which such adjustments might occur, and is unable to project the size of this potential impact in FY 2017.

Gross Income Tax – Earned Income Tax Credit (PTRF)

The OLS estimates that the Earned Income Tax Credit (EITC) portion of this bill may reduce gross income tax revenues deposited into the Property Tax Relief Fund by about $122.0 million in FY 2017, $124.0 million in FY 2018, and $127.0 million in FY 2019. In future years, growth of about 2.0 percent per year may continue.

The NJ EITC is a refundable credit based on the federal EITC and is paid to eligible taxpayers through the State's gross income tax. The OLS estimate begins with the Executive's assessment that the recent increase of the NJ EITC, from 20 percent to 30 percent of the federal credit (P.L. 2015, c.73), would reduce gross income tax revenues by $122.0 million in FY 2016, as reported on pages 30 and 33 in the FY 2017 Budget Summary. The increase under this bill, from 30 percent of the federal credit to 40 percent, is projected to have the same incremental impact as the previously enacted increase. Historically, the federal credit amounts have grown by approximately 2.0 percent annually, but recent Internal Revenue Service data indicate the value of federal credits may grow by less than 1.0 percent in 2016. Lower levels of growth in the federal benefit, combined with the New Jersey Division of Taxation's recent enhanced enforcement efforts, suggests growth in the State program may be contained in FY 2017, the first year under this bill. Accordingly, the OLS assumes a revenue loss of $122.0 million in FY 2017 and a historical 2.0 percent rate of growth annually thereafter.

Based on available federal Internal Revenue Service preview data, it is estimated that under the bill, the average NJ EITC benefit amount will increase by $255, from $708 in TY 2015 to approximately $963 in TY 2016. According to the New Jersey Department of the Treasury, it is estimated that some 552,900 taxpayers claimed a credit during TY 2014, the most recent year for which data are available. It is noted, however, that the number of taxpayers receiving an EITC in recent years has experienced some variance due in part to the Division of Taxation's enforcement efforts.

Motor Fuels and Petroleum Taxes (GF)

The increase in taxes imposed under the Petroleum Products Gross Receipts Tax (PPGRT) consists of three major components: (1) an increase in the tax rate on motor fuels by 12.85 percent and a phase-in of the diesel component; (2) increasing the tax on non-motor fuels subject to the PPGRT from 2.75 percent to 7 percent; and (3) an increase in the tax on diesel fuels by 3 cents per gallon in the first year and 4 cents per gallon in future years. The estimated amounts for these four components are shown in the table below.

Estimated Impact of Various Fuels Tax Changes ***$ in Millions***						
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
12.85% PPRG Tax	$947.6	$1,137.9	$1,137.9	$1,137.9	$1,137.9	$1,137.9
7% Tax on Non-Motor Fuels PPGR	$25.9	$31.1	$31.1	$31.1	$31.1	$31.1
4 Cent/gal Tax on Diesel PPGR	$24.7	$39.6	$39.6	$39.6	$39.6	$39.6
Total Fuel Taxes	**$998.2**	**$1,208.6**	**$1,208.6**	**$1,208.6**	**$1,208.6**	**$1,208.6**

These tax changes are expected to increase total PPGRT revenue by about $998.2 million in FY 2017 and $1.21 billion per year for FY 2018 and beyond. The bill is structured in a manner that adjusts the cents-per-gallon 12.85 percent PPGRT tax rate annually to target the amount of revenue generated in FY 2016 when using 23 cents-per-gallon as the 12.85 percent cents-per-gallon equivalent. This will result in variation of the cents-per-gallon rate depending on the future total annual sales of products subject to the PPGRT. The volume of future consumption is highly uncertain due to increasing vehicle fuel efficiency, increasing adoption of alternative fuel vehicles, and slowing State population growth which accordingly makes the likely future tax rate uncertain as well. It is likely that changes in the consumption of fuels will require increases in the cents-per-gallon PPGRT tax rate, in order to ensure a level amount of revenue.

(1) The motor fuels subject to the PPGRT are likely to generate approximately $49.47 million per year for each cent-per-gallon imposed on motor fuels. This is consistent with revenues from the existing taxes on motor fuels. The 12.85 percent rate applied to the current average retail price of $1.79 after subtracting existing taxes, results in a cents-per-gallon rate of 23 cents. This results in revenues of $1.138 billion annually. The amount for FY 2017 needs to be reduced according to the phase in schedule for the diesel component, and also for collections occurring during less than 12 months in the first year. The distribution of motor fuel sales in the State is approximately 80 percent gasoline and 20 percent diesel. Applying that ratio to the phase in schedule and reducing the revenue accordingly nets a FY 2017 revenue of $947.6 million for 10 months.

(2) After multiplying the $49.47 million for each cent-per-gallon estimate of motor fuels by the existing 4 cents per gallon, the motor fuels component of the PPGRT is calculated to be $197.88 million. Subtracting that from the $218 million in total current PPGRT revenues, the non-motor fuel revenue is calculated to generate $20.12 million at the 2.75 percent rate. Using these same ratios, an increase to 7 percent is likely to generate an additional $31.1 million in additional revenue per year. The FY 2017 amount is reduced to account for collections occurring during less than 12 months in the first year.

(3) Using the above motor fuel distribution and applying it to the $49.47 million per year revenue for each cent-per-gallon imposed on motor fuels results in $9.9 million per year in revenue per cent-per-gallon imposed on diesel fuel. As a result the FY 2017 revenue from this

provision will generate $29.7 million at the 3 cents-per-gallon rate and $39.6 million in FY 2018 and beyond from the 4 cents-per-gallon rate. The FY 2017 amount is reduced to account for collections occurring during less than 12 months in the first year.

Review Council

Lastly, the OLS notes that the legislation requires the review council, established in section 13 of the bill, to monitor on an ongoing basis the actions of the Legislature that modify the implementation of the provisions of the bill. If implementation is impeded, (by, for example, extending a phase-in, freezing a phase-out at a particular level, or repealing one of the bill's provisions), the council would certify this occurrence to the Director of the Division of Taxation. This certification would in turn trigger the cessation of the imposition of one of the components of the petroleum products gross receipts tax comprising a portion of the non-motor fuels tax revenue under current law, and all of the fuels tax increases estimated above under the bill, except for the additional 4 cents per gallon of tax on diesel fuel to be imposed beginning July 1, 2017. In the event of such cessation, the projected State tax revenue impact estimated in this analysis would no longer apply.

Section: *Revenue, Finance, and Appropriations*

Analysts: *Martin Poethke*
Principal Revenue Analyst
Patrick Brennan
Senior Fiscal Analyst

Approved: *Frank W. Haines III*
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.).