

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 40
STATE OF NEW JERSEY
217th LEGISLATURE

DATED: MARCH 21, 2016

SUMMARY

Synopsis: Increases New Jersey Earned Income Tax Credit to 40 percent of federal benefit amount beginning in Tax Year 2016.

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	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State Revenue Loss	\$122.0 million	\$124.0 million	\$127.0 million

- The Office of Legislative Services (OLS) estimates that 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.

BILL DESCRIPTION

Assembly Bill No. 40 of 2016 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. For Tax Year 2016, the Internal Revenue Service has indicated, the following program limits:

Maximum Income Eligibility Levels				
If filing ...	Qualifying Children Claimed			
	Zero	One	Two	Three or more
Single, Head of Household or Widowed	\$14,880	\$39,296	\$44,648	\$47,955
Married Filing Jointly	\$20,430	\$44,846	\$50,198	\$53,505

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. Based on available federal Internal Revenue Service 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.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that 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 the reduction 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.

Section: Revenue, Finance, and Appropriations

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This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).