LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 1404
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: NOVEMBER 27, 2018

SUMMARY

Synopsis: Revises gross income tax rates for joint filers and similar taxpayers and designated as Marriage Penalty Elimination Act.

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

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	Tax Year 2018	Tax Year 2019	Tax Year 2020
State Revenue Loss	Up to $294.8 million	Up to $309.1 million	Up to $324.5 million

- The Office of Legislative Services (OLS) estimates that the enactment of the bill would reduce gross income tax revenue deposited into the Property Tax Relief Fund by up to $294.8 million in Tax Year (TY) 2018, $309.1 million in TY 2019, and $324.5 million in TY 2020. The revenue loss attributable to the enactment of the bill will continue to occur on an annual basis for each tax year following TY 2020, and the magnitude of the impact on gross income tax revenue may increase or decrease over time depending on the number of taxpayers impacted by the bill.

BILL DESCRIPTION

The bill revises certain gross income tax rates imposed on joint filers and similar taxpayers. Specifically, the bill adjusts the tax rate imposed on joint filers with taxable income up to $40,000 to 1.40 percent and for taxable income above $40,000 but below $70,001 to 1.75 percent. In contrast the gross income tax rates currently imposed are 1.40 percent on taxable income up to $20,000, 1.75 percent on taxable income above $20,000 but below $50,001, and 2.45 percent on taxable income above $50,000 but below $70,001.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

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– OLS –

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OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the enactment of the bill would reduce gross income tax revenue deposited into the Property Tax Relief Fund by up to $294.8 million in TY 2018, $309.1 million in TY 2019, and $324.5 million in TY 2020. The revenue loss attributable to the enactment of the bill will continue to occur on an annual basis for each tax year following TY 2020, and the magnitude of the impact on gross income tax revenue may increase or decrease over time depending on the number of taxpayers impacted by the bill.

According to the Statistics of Income for TY 2015, which is published annually by the Office of Revenue and Economic Analysis and is the most recent year for which data are available, roughly 1.231 million full-year resident taxpayers, classified as married, joint filers, had income that would be taxed at a lower marginal tax rate as a result of the bill's enactment. Based on the current marginal gross income tax rates, those taxpayers would have had an aggregate maximum tax liability of approximately $1.483 billion on roughly $56.542 billion of taxable income that fell between the impacted tax brackets. Utilizing the marginal gross income tax rates provided in the bill and assuming the maximum amount of taxable income for each taxpayer, those 1.231 million taxpayers would have had an aggregate maximum tax liability of approximately $1.251 billion, or a net decrease of approximately $232.9 million in gross income tax revenue.

In order to determine the impact for TY 2018 through TY 2020, the $232.9 million was adjusted by five percent annually to account for growth in income since TY 2015. Thus, the projected fiscal impact from the enactment of the bill is an annual decrease in gross income tax revenue to the State of up to $268.0 million in TY 2018, $281.0 million in TY 2019, and $295.0 million in TY 2020. This estimate accounts for married, joint filers, and does not include individuals filing as head of household or as a surviving spouse who would also benefit from the reduced gross income tax rates. Individuals filing as head of household or as a surviving spouse represent roughly 15 percent of all gross income tax returns filed with the State. Approximately 31 percent of those head of household and surviving spouse returns would not be impacted by the bill since the reported gross income is below $20,000. Thus, in order to account for these returns, the OLS is increasing the estimates, based on married, joint filer returns, by 10 percent. Accordingly, the OLS projects that the aggregate impact on gross income tax revenues would be an annual decrease of up to $294.8 million in TY 2018, $309.1 million in TY 2019, and $324.5 million in TY 2020.

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.).