

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]

ASSEMBLY, No. 2650

STATE OF NEW JERSEY

DATED: MARCH 22, 2018

The Assembly Appropriations Committee reports favorably Assembly Bill No. 2650 (1R).

This bill will require the State to recognize an election of a taxpayer under the "Property Tax Deduction Act" under the New Jersey gross income tax to claim as an additional 2017 taxable year homestead property tax deduction up to \$10,000 made by the taxpayer for an advance prepayment of homestead property taxes during 2017 for the 2018 calendar year. The New Jersey Society of Certified Public Accountants has reported that according to the New Jersey Division of Taxation, "residents can claim a deduction or credit on their New Jersey income tax returns for the property taxes they have paid. However, they can take the deduction or credit only in the year in which the property taxes were due. Taxpayers cannot take deductions or credits for 2018 property tax pre-payments on their 2017 New Jersey Income Tax returns (NJ-1040). They must wait until they file their 2018 returns." This bill will reverse this policy and give the taxpayer a choice to take the pre-payment either under the 2017 additional deduction or as part of the 2018 property tax deduction which is limited to \$10,000.

Many New Jersey homestead property taxpayers responded to the capping of the federal itemized deduction for State and local taxes starting in 2018 under the federal "Tax Cuts and Jobs Act" enacted on December 22, 2017, by making these local property tax pre-payments. Some tax advisors and elected officials encouraged these pre-payments as a way to make the last uncapped itemized deduction under the federal income tax for 2017 for State and local taxes that can often exceed the new federal cap of \$10,000 that starts in 2018.

This bill will allow these pre-payments, motivated by the targeted tax changes that unfairly, directly impact many New Jersey federal income taxpayers under the "Tax Cuts and Jobs Act," to be allowed, at the election of the taxpayer, as additional 2017 New Jersey gross income tax deductions. The additional, elective deduction will also be capped at \$10,000 which is the maximum New Jersey homestead property tax deduction statutory limit for the annual property tax deduction for property taxes paid within the tax year in which they are due since 1998. The pre-payments cannot be claimed as part of a 2017

taxable year additional deduction if the taxpayer requests a refund of the pre-payment from the municipality to which the pre-payment was made.

FISCAL IMPACT:

The Office of Legislative Services (OLS) concludes that the bill will have an indeterminate decrease in State gross income tax revenues in Fiscal Year 2018, an indeterminate increase in State gross income tax revenues in Fiscal Year 2019, and no impact in Fiscal Year 2020. The OLS cannot predict how many resident taxpayers will choose to deduct 2018 property tax prepayments from their 2017 gross income.

The State will experience a Fiscal Year 2018 revenue loss if resident taxpayers choose to take a 2017 gross income tax deduction for 2018 property tax prepayments. The additional deduction will reduce the amount of 2017 gross income subject to taxation and a taxpayer's 2017 gross income tax liability, which must be paid by April 2018. If a resident taxpayer takes an additional 2017 gross income tax deduction for 2018 property tax prepayments then that taxpayer will be limited to a 2018 gross income tax deduction only for property taxes paid in 2018. Because the taxpayer is permitted a smaller property tax deduction, more of his or her gross income will be subject to taxation and State Fiscal Year 2019 revenue will thus be higher than otherwise.

The OLS notes that the bill allows for total property tax deductions over the two tax years by taxpayers with annual property tax bills in excess of \$10,000 that would be greater than the \$20,000 two-year maximum under current law. Therefore, the OLS estimates that the bill will likely result in a net State revenue loss over the two fiscal years.