

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 2481
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: SEPTEMBER 25, 2020

SUMMARY

Synopsis: Excludes Armed Services combat zone pay from gross income taxation.

Type of Impact: Annual State revenue loss to the Property Tax Relief Fund.

Agencies Affected: Department of the Treasury, Division of Taxation.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
State Revenue Loss	Indeterminate

- The Office of Legislative Services (OLS) estimates that the bill will result in an indeterminate loss of revenue to the Property Tax Relief Fund. The magnitude of the impact on State revenues would vary annually and fluctuate according to future U.S. military deployments.
- The OLS cannot quantify the fiscal impact of the bill because of variations in compensation paid to members of the Armed Forces, National Guard, and Reserves and the variation in compensation based on pay grade. Additionally, the OLS does not have data on the number of New Jersey residents deployed to combat zones.
- The Internal Revenue Code provides an exclusion for active duty pay and combat pay earned by a member of the Armed Forces and others for each month the member served in a combat zone. This bill excludes the same amount of income earned by a member of the Armed Forces from State gross income tax.

BILL DESCRIPTION

This bill excludes military pay for service in a combat zone or hospitalization that occurred as a result of injury while serving in a combat zone from gross income under the New Jersey gross income tax. The bill uses the federal definitions of combat zone pay to exclude from New Jersey taxation the same pay that is excluded from federal income taxation. A combat zone is any area the President of the United States designates as an area in which the U.S. Armed Forces are

engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill will result in an indeterminate loss of revenue to the Property Tax Relief Fund. The magnitude of the impact on State revenues would vary annually and fluctuate according to future U.S. military deployments. The OLS cannot quantify the fiscal impact of the bill because of variations in compensation paid to members of the Armed Forces, National Guard, and Reserves and the variation in compensation based on pay grade. Additionally, the OLS does not have data on the number of New Jersey residents deployed to combat zones. The countries identified as combat zones based on Internal Revenue Service (IRS) information were Afghanistan, Bahrain, Djibouti, Egypt, Iraq, Israel, Jordan, Kosovo, Kuwait, Kyrgyzstan, Lebanon, Montenegro, Oman, Pakistan, Qatar, Saudi Arabia, Serbia, Somalia, Syria, Tajikistan, United Arab Emirates, Uzbekistan, and Yemen. A report titled Eleventh Quadrennial Review of Military Compensation stated that the average combat zone pay is \$225 per month and a report by the National Academy of Sciences stated that the average length of time in a combat zone is approximately eight months. Based on this information, the OLS estimates average total combat zone pay to be \$1,800. There are several paygrades among military personnel such as enlisted personnel, commissioned officers, and warrant officers. Although the OLS cannot estimate the cost of this bill, the following are examples of how the bill would work.

According to a report titled 2018 Demographics Profile of the Military Community, approximately 62.5 percent of active duty personnel are in pay grades E3 to E6. Based on salary information from the Defense Financing and Accounting Service (DFAS), the pay in that range can be from \$2,233.50 per month (E3) to \$3,254.10 per month (E6). The OLS estimated an average pay of \$2,788.28 per month for personnel in the E3 to E6 pay grade. The OLS then multiplied that number by 12 months to arrive at an estimated salary of \$33,459.30. If OLS assumes that an enlisted personnel also served the full eight months in a combat zone, then the individual would have a salary of \$35,259.30, and could exclude approximately \$23,506.20 from taxation. The remaining would be subject to State gross income tax. If this individual claims only the personal exemption, the individual's State gross income tax liability prior to the combat zone exclusion is \$529.54. The individual's State gross income tax liability after the combat zone exclusion would be \$150.54.

In a similar method, OLS estimated a salary of approximately \$77,354.60 for commissioned officers. If OLS assumes that the commissioned officer served the full eight months in a combat zone, then the commissioned officer would have a salary of \$79,154.60, and could exclude approximately \$52,769.73 from taxation. The remaining would be subject to State gross income tax. If the individual claims only the personal exemption, the individual's State gross income tax liability prior to the combat zone exclusion is \$2,852.20. The individual's State gross income tax liability after the combat zone exclusion is \$374.24.

The examples provided above only included military base pay and estimated combat zone pay. Members of the Armed Forces may receive other types of compensation such as "Hardship Pay",

“Hostile Fire Pay”, “Imminent Danger Pay”, and allowances (basic housing allowance and clothing allowance) that will affect total compensation and the liability for the State gross income tax. This varies by individual members of the Armed Forces and thus would affect the estimate of foregone revenue.

Section: Revenue, Finance, and Appropriations

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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.).