

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 2347
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MAY 21, 2020

SUMMARY

- Synopsis:** Establishes Employment and Business-Related Tax Deferral Assistance Program in EDA to allow small businesses to defer the payment and remittance of certain employment and business-related taxes during COVID-19 public health emergency.
- Type of Impact:** Delay in State revenue collections.
- Agencies Affected:** Economic Development Authority, Department of the Treasury, and Department of Labor and Workforce Development.

Fiscal Impact	<u>Fiscal Years 2020 to 2022</u>
State Revenue	Indeterminate amount of revenue shifted from FY 2020 to FY 2021 and FY 2022.

- The Office of Legislative Services (OLS) finds that this bill will result in an indeterminate amount of revenue shifted from FY 2020 to FY 2021 and FY 2022. The magnitude of the shift will be affected by factors such as the number of small employers that decide to participate in the program and the specific agreement the small employer enters into with the Economic Development Authority (EDA).
- The OLS estimates this bill could potentially result in a shift of approximately \$76.4 million to \$178.3 million in revenue from the gross income tax and payroll taxes from FY 2020 to FY 2021 and FY 2022. The OLS lacks sufficient information to provide an estimate for the sales and use tax, petroleum products gross receipts tax, or motor fuels tax, and therefore the overall cost estimate for the bill is indeterminate.

BILL DESCRIPTION

This bill creates the Employment and Business-Related Tax Deferral Assistance Program in the EDA to allow small businesses (defined as ten full-time equivalent employees or less) to defer the payment and remittance of certain employment and business-related taxes during the coronavirus disease 2019 (COVID-19) pandemic.

The small business must apply by July 31, 2020 and demonstrate that it has been negatively impacted by the COVID-19 pandemic through either a temporary shut down, reduced hours, a 20

percent drop in revenue, employees unable to work, or a disruption in the supply chain. If the application is approved by the EDA, the EDA will enter into an agreement with the small business to set the terms for the deferment and subsequent payment or remittance of the employment or business-related tax. The small business will be required to pay or remit 50 percent of the applicable employment and business-related taxes that the small business has imposed and collected but elected to defer during the deferment period no later than June 30, 2021. The small business then has until June 30, 2022 to pay or remit the remaining balance. The employment and business-related taxes that are affected by this bill include the gross income tax, sales and use tax, petroleum products gross receipts tax, motor fuel tax, unemployment compensation, temporary disability benefits, and workers' compensation.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds that this bill will result in an indeterminate amount of revenue shifted from FY 2020 to FY 2021 and FY 2022. The magnitude of the shift will be affected by factors such as the number of small employers that decide to participate in the program and the specific agreement the small employer enters into with the EDA. The OLS estimates this bill could potentially result in a shift of approximately \$76.4 million to \$178.3 million in revenue from the gross income tax and payroll taxes from FY 2020 to FY 2021 and FY 2022. The OLS lacks sufficient information to provide an estimate for the sales and use tax, petroleum products gross receipts tax, or motor fuels tax.

Based on data from the United States Census Bureau, the OLS calculates that there are approximately 436,420 employees who work in firms with ten employees or less. For purposes of this estimate, the OLS assumes these employees have an annual income of \$30,000, and that between 30 and 70 percent of these employees are in firms that participate in the deferral assistance program. As a result, the lower bound of employees is approximately 130,926 employees and the upper bound of employees is approximately 305,494 employees. Based on the 2016 Statistics of Income Report, the OLS applied a 1.1 percent effective tax rate to the \$30,000 assumed income to arrive at a gross income tax revenue of \$330 per employee. The OLS then multiplied \$330 by the aforementioned estimates of the number of employees to calculate a lower bound revenue deferral estimate of \$43.2 million in gross income tax shifted from FY 2020 to FY 2021 and FY 2022, and an upper bound of \$100.8 million in gross income tax shifted from FY 2020 to FY 2021 and FY 2022.

This analysis also utilizes data from the Department of Labor and Workforce Development to estimate the deferral of other employment related costs such as temporary disability insurance and unemployment insurance. Using the income and participation assumptions identified above and a 0.26 percent rate for temporary disability insurance and a 0.3825 percent rate for unemployment insurance results in an estimated shift of \$10.2 million to \$23.8 million in shifted temporary disability insurance revenues and \$15.0 million to \$35.1 million in shifted unemployment insurance revenues. The OLS applied a 0.0425 percent rate for workers' compensation and a 0.16 percent rate for family leave insurance and applied the same income and participation assumptions identified above for an estimated shift of \$1.7 million to \$3.9 million in shifted workforce

development revenues and \$6.3 million to \$14.7 million in shifted family leave revenues. In adding together the lower bound and upper bound estimates, the OLS arrived at a range of \$76.4 million on the lower bound in shifted costs and \$178.3 million on the upper bound in shifted costs.

The OLS does not have sufficient data to provide an estimate for the sales and use tax, petroleum products gross receipts tax, or motor fuels tax, and therefore the overall cost estimate for the bill is indeterminate.

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.).