LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 2360

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: MAY 21, 2020

SUMMARY

Synopsis: Allows gross income tax deduction for charitable contributions to certain New Jersey-based charitable organizations during COVID-19 pandemic.

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

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	FY 2021
State Revenue Loss	Indeterminate

- The Office of Legislative Services (OLS) is unable to determine the exact magnitude of the State gross income tax revenue loss from the charitable contribution deduction provided in this bill, given the absence of information on contributions by New Jersey gross income taxpayers to qualified New Jersey-based charitable organizations.

- The OLS cannot predict when the exclusion period will conclude. As an example, if the exclusion period ends in June, then taxpayers will have had four months' worth of eligible charitable contributions they can deduct on their Tax Year 2020 gross income tax returns. Thus, the prorated range of the estimated State revenue loss would be $72.8 million to $124.9 million. Given the financial issues people are experiencing due to the coronavirus disease 2019 (COVID-19) pandemic, charitable contributions could decrease, which in turn decreases the magnitude of the impact of this bill.

BILL DESCRIPTION

This bill allows a New Jersey gross income tax deduction for charitable contributions that are made to certain New Jersey-based charitable organizations during the COVID-19 pandemic to encourage philanthropic giving to Garden State charities.

Under this bill, New Jersey gross income taxpayers are allowed to deduct from gross income charitable contributions that are made during the taxable year during the COVID-19 pandemic to a qualified New Jersey-based charitable organization. The bill provides that the amount of the deduction is limited to $20,000 for joint filers and head of households and $10,000 for single filers, married taxpayers filing separately, or surviving spouses.

The bill defines "exclusion period" as the time when the Governor issued Executive Order No. 103 of 2020 declaring a public health emergency for the COVID-19 pandemic (March 9, 2020) until there is no longer a public health emergency. The bill defines "qualified New Jersey-based charitable organization" as a charitable organization that is registered pursuant to the "Charitable Registration and Investigation Act," or an organization that is exempt from the registration requirements of that act, and maintains an office, employs persons, and provides services in this State.

This bill takes effect immediately upon enactment and applies to charitable contributions that are made during the exclusion period.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS is unable to determine the exact magnitude of the State gross income tax revenue loss from the charitable contribution deduction provided in this bill, given the absence of information on contributions by New Jersey gross income taxpayers to qualified New Jersey-based charitable organizations. Subject to certain assumptions, however, the OLS estimates that the annual revenue loss could range from $54.6 million to $93.7 million.

Internal Revenue Service (IRS) data indicate that roughly 1.6 million New Jersey taxpayers claimed $7.3 billion in itemized charitable deductions on their federal tax year 2017 returns. Based on the IRS data, the average charitable deduction was $4,563. However, these data are of limited use for purposes of this estimate. For one, they do not comprise the entire New Jersey taxable return population, since more than half of New Jersey taxpayers do not itemize deductions on their federal returns. The IRS data also do not indicate whether deductions were to qualified New Jersey-based charitable organizations, as the term is defined in the bill. Furthermore, the amount claimed reflects a full year's worth of charitable contributions, but the bill is limited to the exclusion period. Given the calculated average charitable deduction of $4,563, the OLS does not expect the bill's deduction caps of $10,000 and $20,000 to have as much of an impact.

Notwithstanding these limitations, assuming that three-quarters of the $7.3 billion in charitable contributions deducted at the federal level would be deductible at the State level if the bill were enacted, the potential pool of New Jersey taxpayer charitable contributions would approximate $5.5 billion. Multiplying that amount by effective tax rates of 3.5 percent and 6.0 percent yields an estimated State tax revenue loss of $192.5 million to $330.0 million per year. This range, however, does not account for taxpayers who make charitable contributions but do not itemize deductions on their federal returns.

Data included in "Giving USA 2019: The Annual Report on Philanthropy for the Year 2018" allows for an estimate of charitable contributions by taxpayers who do not claim itemized deductions on their federal tax returns. The report was produced by the Indiana University Lilly Family School of Philanthropy for the Giving USA Foundation. According to the report, charitable giving by American individuals, bequests, foundations, and corporations to United States charities equaled an estimated $427.7 billion in 2018. Giving by individuals represented approximately 68.0 percent of the total, or $290.8 billion. This amount is about 13.5 percent higher than the $256.3 billion taxpayers nationwide itemized on their federal income tax returns in tax year 2017. If that extra 13.5 percent is applied to the $192.5 million to $330.0 million range estimated above to account for charitable donations by New Jersey taxpayers who do not itemize deductions on their federal income tax returns, the range of the estimated State revenue loss increases to $218.5 million to $374.6 million per year.

The OLS cannot predict when the exclusion period will conclude. As an example, if the exclusion period ends in June, then taxpayers will have had approximately four months' worth of eligible charitable contributions they can deduct on their Tax Year 2020 gross income tax returns. Thus, the prorated range of the estimated State revenue loss would be $72.8 million to $124.9 million. Given the financial issues people are experiencing due to the COVID-19 pandemic, charitable contributions could decrease relative to prior years, which in turn decreases the magnitude of the impact of this bill. Furthermore, charitable giving tends to concentrate in the month of December, suggesting that a simple proration of an annual estimate may overestimate the revenue loss.

Section:	*Revenue, Finance and Appropriations*
Analyst:	*Jordan M. DiGiovanni* *Revenue Analyst*
Approved:	*Frank W. Haines III* *Legislative Budget and Finance Officer*

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.).