FISCAL NOTE TO

[First Reprint]
ASSEMBLY, No. 670

STATE OF NEW JERSEY

DATED: JUNE 25, 1996

Assembly Bill No. 670 (1R) of 1996 exempts the international ship operation income of foreign national shipping companies and the international aircraft operation income of foreign airline companies from the New Jersey corporation business tax if the home countries of the foreign companies provide a similar exemption for the income of United States shipping and airline companies.

New Jersey has never subjected the carrier income of foreign carriers to taxation. However, under a strict reading of the corporation business tax, foreign carrier corporations with offices or regular business agents in New Jersey might be found to be subject to the tax. If subject to the tax, they would determine their taxable income under the three-factor apportionment formula to determine the portion of their corporations' world-wide income that will be subject to tax. Because of their limited contacts with the State, their apportionment percentage would be very small and their tax liabilities minimal.

Federal and international income tax laws use a different system and a different kind of bookkeeping from the formula apportionment method used by states. Because of the difference in systems, an international corporation subject to state taxation on a small fraction of its income could have a tax reporting and compliance cost that far exceeds its tax liability.

The Office of Management and Budget (OMB) in the Department of the Treasury notes that the bill codifies the current Division of Taxation position that foreign carrier income that is exempt from federal taxation is exempt from taxation under the corporation business tax, and that this bill would have minimal impact on future revenues. The Office of Legislative Services concurs with the OMB analysis.

This fiscal note has been prepared pursuant to P.L.1980, c.67.