FISCAL NOTE TO

SENATE, No. 142

STATE OF NEW JERSEY

DATED: JULY 18, 1996

Senate Bill No.142 of 1996 would exempt from the sales and use tax imprinting services performed on production machinery or equipment that are used in the production of tangible personal property.

The Division of Taxation estimates that losses to State revenue will be $1.1 million in FY 1997 and $1.1 million in FY 1998. With little current data available, this estimate is calculated using data from the Census of Manufacturers for 1982 and 1987. In 1982 the sales of imprinting services in New Jersey were reported to be $9 million, and in 1987 sales had grown 44 percent to $13 million. By assuming an identical 44 percent growth since 1987, the division calculates that sales have grown to $18 million of which $1.1 million is collected in sales and use taxes (based on a 6 percent rate).

The Office of Legislative Services (OLS) has been able to replicate the method of analysis performed by the division and generally concurs with the validity of its methodology. Nevertheless, OLS cautions that two variables affect this estimate.

The division's growth estimate of 44 percent between 1988 and the present for the industry is too optimistic. The 1980s were a period of strong growth in many industries, including imprinting services, while the early 1990s saw smaller growth rates. In fact, some anecdotal evidence suggests that the imprinting industry, nationally, has seen a sales decline in the early 1990s. Therefore, OLS believes that the imprinting services industry in New Jersey did not grow at the robust rate indicated by the division's analysis, and as a result, the revenue loss will be less than the division's estimate suggests.

The OLS also notes that such optimistic growth rates would suggest a growing revenue loss to the State in successive years following enactment of this bill. Instead, in this fiscal note and in a previous note in response to an earlier version of this bill, the division has calculated that the revenue losses in fiscal years 1996-1998 will be a constant $1.1 million loss. The OLS does not concur with this judgement. Instead, the OLS believes that the value of this exemption will increase proportionately with the value of imprinting services' industrial growth.

However, due to insufficient data, the OLS is unable to measure the rate of this growth or its impact on State revenues. Nevertheless, the OLS believes the initial State revenue loss attributable to this legislation to be somewhat lower and that the revenue loss will grow in the years following enactment.

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