FISCAL NOTE TO

SENATE, No. 177

STATE OF NEW JERSEY

DATED: MARCH 7, 1997

Senate Bill No. 177 of 1996 provides for a credit under the New Jersey gross income tax equal to between 5 per cent and 15 per cent of the cost of certain home improvements. Under the bill, home improvements include the modernization, rehabilitation, renovation, alteration or repair of a residence owned and occupied by the claimant. To qualify for the credit, the cost of the home improvement must equal or exceed $1,000.

The percentage of the cost of the improvement that is allowed as a credit depends upon the claimant's gross income. Taxpayers with an income of $35,000 or less receive a credit equal to 15 per cent of the cost of the improvement. Taxpayers with incomes above $35,000 but not more than $70,000 receive a credit equal to 10 per cent of the cost of the improvement. Taxpayers with incomes above $70,000 but not more than $150,000 receive a credit equal to 5 per cent of the cost of the improvement. Taxpayers with incomes over $150,000 are not eligible to receive the credit. The maximum credit permitted under the bill is $5,000. If a taxpayer's credit exceeds his or her tax liability, the taxpayer will receive the difference as a refund.

The Division of Taxation in the Department of the Treasury (Treasury) has estimated that the loss of revenue to the State would be approximately $75 million in FY 1997, $77.5 million in FY 1998, and $80 million in FY 1999.

According to the US Industrial Outlook, 1994, upkeep and improvement spending on owner occupied units was $70 billion in 1993, and was anticipated to be approximately $75 billion in 1996, $77 billion in 1997, and $79 billion in 1998. The division, using the New Jersey percentage of 4 per cent of total national personal income, estimated New Jersey spending of $3 billion for 1996, $3.1 billion for 1997, and $3.2 billion for 1998.

The division indicates that a low estimate could assume that 50 per cent of the spending on home improvements comes from those with gross incomes over $150,000. Thus, $1.5 billion (before accounting for the $1,000 minimum) is eligible for credit in 1996, $1.55 billion in 1997, and $1.6 billion in 1998. The division estimates (again conservatively) that 50 per cent of this money is spent on home improvements costing more than $1,000, meaning that $750 million in spending in 1996, $775 million in 1997, and $800 million in 1998, would qualify for refundable credits averaging 10 per cent. The loss

in tax revenue in that case would be approximately $75 million in FY 1997, $77.5 million in FY 1998, and $80 million in FY 1999.

The Office of Legislative Services concurs.

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