LEGISLATIVE FISCAL ESTIMATE TO

SENATE, No. 192

STATE OF NEW JERSEY

DATED: SEPTEMBER 27, 1996

Senate Bill No.192 of 1996 amends N.J.S.54A:6-10 and N.J.S.54A:6-15 of the New Jersey Gross Income Tax Act so that a person 62 years of age or older, or a disabled individual eligible for federal Social Security benefits, would be able to exclude from gross income up to $20,000 of certain retirement income if filing jointly as a married couple, $15,000 if filing as a single taxpayer, or $10,000 if married but filing separately. These amounts double current exemption limits.

Currently under N.J.S.54A:6-10, a person 62 years of age or older, or a disabled individual eligible for federal Social Security benefits, may exclude only up to $10,000 in pension income if married filing jointly, $5,000 if married filing separately and $7,500 if filing as a single taxpayer. Excludable pension income includes such items as payments upon an annuity, endowment or life insurance contract, pension, disability or retirement benefit payments from a private or public plan, or Individual Retirement Account withdrawals.

N.J.S.54A:6-15 is amended to increase the excludable amounts of other retirement income to match the levels in N.J.S.54A:6-10, but total pension income plus other retirement income excluded through these two statute sections may still not exceed the levels in N.J.S.54A:6-10. Currently N.J.S.54A:6-15 permits the exclusion from gross income of other retirement income, such as interest and dividend earnings from investments, but only if the taxpayer has less than $3,000 in income from such sources as a salary or wage, net profit from a business, or distribution of partnership income. The $3,000 income restriction is retained by the bill.

FISCAL IMPACT:

The Department of the Treasury and the Office of Management and Budget (OMB) have not provided a fiscal estimate of the cost of Senate Bill No.192 of 1996. The Office of Legislative Services (OLS) estimates the loss of revenue from this bill would be approximately $70 million in tax year 1997, increasing by about five percent annually thereafter. The OLS notes that most of the revenue losses will occur beginning in fiscal year 1998, but some impact may occur in fiscal year 1997 if taxpayers who file estimated tax payments in April and June of 1997 adjust their payments to reflect their lower liability.

ASSUMPTIONS:

The Department of the Treasury and the Office of Management and Budget estimated a revenue loss of $83 million for fiscal year 1996 for a similar bill in the prior Legislative session (S-1521 of 1994). Losses were expected to increase by 10 percent per year. The OLS concurred with that estimate.

Since 1994 marginal tax rates for most taxpayers have been reduced by 30 percent (15 percent and nine percent for some higher income brackets). The total effect of the reduced tax rates has been to reduce gross income tax revenue by an estimated 20 percent, beginning in 1996. Inflating OMB's fiscal year 1996 estimate to fiscal year 1998 and reducing that amount by 20 percent yields an estimate of about $80 million. However, the OLS believes the OMB's prior assumption of 10 percent growth in pension and retirement income may be too high. Assuming a five percent growth rate and using pension income and retirement exclusion data from the *Statistics of Income* (published by the Division of Taxation) the OLS estimates a tax year 1997 revenue loss of approximately $70 million.

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.