FISCAL NOTE TO

[First Reprint]
SENATE, No. 192

STATE OF NEW JERSEY

DATED: OCTOBER 23, 1996

Senate Bill No.192 (1R) 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. The Senate Budget and Appropriations Committee amended the bill to phase in the limits in equal increments over a period of four years beginning with taxable year 1997.

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 for this bill. However, in a new analysis just completed, Treasury and OMB estimate that a similar bill, Assembly Bill No.1899 of 1996, will reduce gross income tax revenues by approximately $4.7 million in fiscal year 1997, $14.2 million in fiscal year 1998, $23.7 million in fiscal year

1999 and $33.6 million in fiscal year 2000. Thereafter, revenue losses will increase along with growth in New Jersey personal income. The Office of Legislative Services (OLS) concurs with this fiscal estimate.

ASSUMPTIONS:

The Department of the Treasury and the Office of Management and Budget used data from a sample of 1993 gross income tax returns filed with the Division of Taxation. The sample contains approximately 79,000 returns matched with federal income tax data. The Division's calculations contrast charged tax liabilities with and without the provisions of the bill. Income growth was projected to the year 2000 by the estimated growth rate in New Jersey total personal income.

The OLS accepts the methodology used in the Treasury analysis, although it has no independent ability at this time to review the 1993 sample data set because it does not have the sample. The OLS notes that the Treasury estimate is significantly lower than the estimate of $83 million for fiscal year 1996 for a similar bill in the prior Legislative session (S-1521 of 1994). In that analysis, Treasury used a different methodology based on aggregate data instead of sample data. The OLS recently prepared a fiscal estimate for S-192 of 1996 before it was amended in committee. The OLS estimated a $70 million loss of revenue for that bill using aggregate data. The Treasury's use of sample data should provide a more accurate analysis because it permits calculations based on individual returns instead of aggregations of millions of returns spread over many income brackets.

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