

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE COMMITTEE SUBSTITUTE FOR **SENATE, No. 1**

STATE OF NEW JERSEY

DATED: JUNE 24, 1996

The Senate Budget and Appropriations Committee reports favorably a Senate Committee Substitute for Senate Bill No.1 of 1996.

Senate Bill No.1 SCS, entitled the "Property Tax Deduction Act," provides a gross income tax deduction that phases in over three years to reach a maximum of up to \$10,000 for property taxes paid by homeowners, or the rental equivalent thereof paid by tenants, on a taxpayer's principal residence in this State.

In effect, this substitute reinstates the deduction of property taxes under the gross income tax that was allowed under the former "Homestead Tax Relief Act," P.L.1985, c.304 (C.54A:3A-1 et seq.). However, unlike the former "Homestead Tax Relief Act," this substitute limits the deduction for taxpayers. The deduction is limited to 50% of \$5,000 in the first year, 75% of \$7,500 in the second year and reaches up to 100% of \$10,000 in the third year.

For a resident property tax payer who is also a gross income taxpayer or a senior citizen, blind or disabled the substitute provides for a guaranteed minimum benefit of \$25 for tax year 1996, \$37.50 for tax year 1997 and \$50 in each tax year thereafter. When the tax savings from the deduction allowed under this substitute are less than the guaranteed minimum benefit, the eligible taxpayer will receive an amount equal to the minimum benefit as an additional payment. This payment may be distributed with homestead rebates.

Finally, the substitute requires that State revenues in the General Fund be used to restore to the Property Tax Relief Fund the annual gross income tax revenues foregone due to the deduction and the refundable tax credit provided by this substitute. This should be done without impacting the annual level of State aid to municipalities, school districts and counties from the General Fund during a fiscal year.

FISCAL IMPACT

The Office of Legislative Services has estimated that the deductions and credits provided by this substitute will reduce gross income tax revenues by \$100 million for tax year 1996, \$170 million for tax year 1997 and \$250 million for tax year 1998.