

FISCAL NOTE TO
SENATE, No. 265

STATE OF NEW JERSEY

DATED: MAY 12, 1997

Senate Bill No. 265 of 1996 provides qualified taxpayers a credit against their State gross income tax liability for child care and dependent care expenses. This credit is similar to the federal child and dependent care credit, and the value of the State credit contained in this bill is tied directly to the value of the federal credit. The State credit is equal to 50 percent of the maximum allowable federal credit, and New Jersey taxpayers who are eligible to claim the federal credit are eligible to claim the State credit.

Under federal statute, taxpayers who have a dependent aged 13 years or less or who care for a dependent/spouse who is physically or mentally incapable of caring for himself qualify to receive the federal child and dependent care credit. Taxpayers who meet these criteria may receive a federal credit equal to 20-30 percent (depending on income) of up to \$2,400 (for one eligible child/dependent) or 20-30 percent of up to \$4,800 (for more than one eligible child/dependent) for household services and child and domestic care expenses. Therefore, taxpayers with one eligible child/dependent receive a federal credit of between \$480 and \$720 and taxpayers with more than one eligible child/dependent receive a federal credit of between \$960 and \$1,440.

The new *State* child and dependent care credit contained in this legislation permits eligible New Jerseyans to take a credit against their New Jersey gross income tax liability equal to 50 percent of their federal credit. Therefore, using the individual ranges of the federal credit listed above, the State credit will provide an additional individual credit of between \$240 and \$360 to taxpayers with one eligible child/dependent. Taxpayers with more than one eligible child/dependent will receive a State credit of between \$480 and \$720.

The Division of Taxation estimates that this legislation will reduce annual gross income tax revenues deposited in the Property Tax Relief Fund by \$50 million in fiscal year 1997 and 1998. The division did not explain the methodology it used to arrive at this estimate. However, by using the total value of all federal child and dependent care credits as reported in the federal *Statistics of Income Bulletin*, estimating the portion that can be allocated to New Jersey and calculating 50 percent of that value, the Office of Legislative Services (OLS) independently calculates the revenue loss associated with this bill to be approximately \$55 million. Therefore, the OLS concurs with the magnitude of the revenue loss provided by the division.

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