

FISCAL NOTE TO
SENATE, No. 785
STATE OF NEW JERSEY

DATED: NOVEMBER 27, 1996

PURPOSE OF THE BILL:

Senate Bill No. 785 of 1996 provides for a deduction from gross income for certain charitable contributions to accredited post-secondary institutions of higher education situated in the State. The deduction would be allowable for the full value of donations of cash or cash equivalent of \$1,000 or more. Contributions for other property would not be deductible.

FISCAL IMPACT:

The Division of Taxation and the Office of Management and Budget (OMB) estimate that this bill would result in annual losses of gross income tax revenue to the State. The losses could vary widely, from perhaps \$0.5 million to \$10 million each year, especially when a particularly large contribution occurs in a given year. The Office of Legislative Services (OLS) estimates that this bill would reduce gross income tax revenues by a maximum of between \$3.6 million and \$7.3 million under normal circumstances in the first year. The revenue loss would increase by about 3 percent annually. The OLS agrees with Treasury that particularly large contributions in a given year, having occurred in the past, could occur again and would add to the tax revenue loss.

ASSUMPTIONS:

The Treasury's analysis is based on data from the Gallup Organization publication, *Giving and Volunteering in the United States*. These data suggest that perhaps three percent of households, or approximately 84,000 taxpayers, give at least \$1,000 to education in New Jersey. That would result in donations of at least \$8.4 million, which at the top marginal tax rate would yield a loss of at least \$0.6 million in gross income tax revenue. Recent large donations of up to \$100 million suggest the revenue loss in any one tax year could exceed \$6.6 million.

The OLS estimate is based on the following data and assumptions. First, according to United States Department of Education data, total expenditures for higher education in New Jersey in 1992-93 equaled \$2,630 million for public and \$982 million for private institutions. Inflating these amounts by 3 percent annually yields an expenditure estimate of \$2,961 million for public and \$1,314 million for private institutions in 1996-97. Second, according to national survey figures

from the Council for Aid to Education (CAE), voluntary support for higher education from individuals and alumni account for about 2.0 percent of total expenditures at public institutions and 4.3 percent at private institutions. Applying these rates to the estimates of total 1996-97 expenditures yields approximately \$59.2 million in individual contributions to public higher education and \$55.8 million in contributions to private higher education. The total amount which individuals and alumni contribute to higher education in the State is estimated at approximately \$115.0 million in 1996-97.

Third, according to the CAE about 50 percent of gifts from individuals represent contributions of \$5,000 or more. Therefore, since the bill sets a \$1,000 donation eligibility minimum, an amount equal to between 50 percent and 100 percent of \$115.0 million could be eligible for deduction from the State income tax. Fourth, it is assumed that these contributions to higher education would affect primarily income earnings in the highest 6.37 percent marginal tax bracket. The \$3.6 million to \$7.3 million estimated revenue loss is calculated by applying the 6.37 percent tax rate to 50 percent and 100 percent of \$115.0 million.

This estimate is a maximum cost to the State because no adjustment is made to account for contributions from those not subject to the New Jersey income tax, since the share of contributions to New Jersey institutions of higher education from out-of-State residents is unknown. In addition, large one-time contributions could change the impact in any single year compared with a typical year.

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