

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 3603
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: OCTOBER 21, 2021

SUMMARY

Synopsis: Increases, from 18 percent to 30 percent, amount of rental payments defined as rent constituting property taxes for purposes of deduction from gross income for property tax payments.

Type of Impact: Annual reduction in gross income tax revenue deposited into Property Tax Relief Fund.

Agencies Affected: Department of the Treasury

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2022 and Each FY Thereafter</u>
Annual State Revenue Loss	\$82.6 million to \$130.5 million

- The Office of Legislative Services (OLS) estimates that increasing the amount of rent constituting property taxes, which would allow income taxpayers to deduct a higher amount of rent from their gross income, could reduce State revenues by roughly \$82.6 million to \$130.5 million annually.
- The OLS notes that the COVID-19 pandemic has affected both occupancies and the price of rent. The actual impact of the bill may initially vary from the OLS estimate, since the rental market in New Jersey is still recovering from the pandemic.

BILL DESCRIPTION

This bill increases the amount of rent constituting property taxes from 18 percent of rent paid to 30 percent of rent paid.

Under the Property Tax Deduction Act, a taxpayer is entitled to a deduction of up to \$15,000 from gross income for property taxes, or the rental equivalent thereof paid by tenants, due and paid for that calendar year on a taxpayer’s homestead. For tenants, the amount of the deduction is based on the amount of rent constituting property taxes. Current law sets the amount of rent constituting property taxes at 18 percent of the rent paid by the taxpayer for the occupancy, during the taxable year, of a unit of residential real property that the taxpayer occupies as a principal residence.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

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The most recent State Statistics of Income report provides the total value of the property tax deduction claimed (\$12.53 billion in Tax Year 2016), for both homeowners and renters, but does not delineate between property tax payments and rent constituting property taxes paid. Thus, the OLS must extrapolate from other data sources to project the fiscal impact of the bill.

According to the 2019 American Community Survey – Selected Housing Characteristics (New Jersey), approximately 1.2 million housing units in this State were renter-occupied with a median gross rent of \$1,376. Assuming the average rent is around \$1,400, the total amount of rent paid by all 1.2 million housing units across a 12-month span would be \$19.68 billion. Under the current formula for calculating rent constituting property taxes, taxpayers could deduct roughly \$3.54 billion of that \$19.68 billion. Based on marginal tax rates of 3.5 percent and 5.525 percent, the approximate value of the existing deduction would be \$124.0 million to \$195.7 million. If that deduction increased to 30 percent of rent paid, the deduction would be valued at \$206.6 million to \$326.1 million. The difference in the deduction between current law and that proposed in the bill yields an estimated annual State revenues loss to the Property Tax Relief Fund of \$82.6 million to \$130.5 million annually.

Section: Revenue, Finance and Appropriations
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Legislative Budget and Finance Officer

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 (C.52:13B-6 et seq.).