

**LEGISLATIVE FISCAL ESTIMATE**  
**SENATE, No. 3997**  
**STATE OF NEW JERSEY**  
**219th LEGISLATURE**

DATED: JUNE 30, 2021

**SUMMARY**

**Synopsis:** “New Jersey College Affordability Act”; appropriates \$10 million.

**Type of Impact:** Annual State revenue loss. Annual State expenditure increase.

**Agencies Affected:** Department of the Treasury and Higher Education Student Assistance Authority.

**Office of Legislative Services Estimate**

<b>Fiscal Impact</b>	<b><u>Year 1</u></b>	<b><u>Year 2</u></b>	<b><u>Year 3</u></b>
<b>Annual State Revenue Loss</b>	Between \$87.2 million and \$105.9 million		
<b>State Expenditure Increase</b>	\$10 million	Indeterminate	Indeterminate

- The Office of Legislative Services (OLS) determines that the tax deductions established under this bill would result in a total annual State revenue loss ranging between \$87.2 million and \$105.9 million.
- The bill would also increase State expenditures by \$10 million in FY 2022 to provide one-time grants of up to \$750 to taxpayers with gross income of \$75,000 or less in a dollar-for-dollar match of an initial deposit into a New Jersey Better Educational Savings Trust (NJBEST) program account.

**BILL DESCRIPTION**

This bill provides that a NJBEST program account when it is initially opened by a taxpayer with gross income of \$75,000 or less will be eligible for a one-time grant of up to \$750 in a dollar-for-dollar match of the initial deposit to the account.

The bill allows a gross income tax deduction for taxpayers with gross income of \$200,000 or less in the amounts contributed to an account established under the NJBEST program. The bill limits the deduction, however, to \$10,000 in contributions.

The bill also allows a taxpayer with gross income of \$200,000 or less to deduct from gross income the amount of principal and interest payments paid on a student loan under the New Jersey College Loans to Assist State Students (NJCLASS) Loan Program, not to exceed \$2,500.

Lastly, the bill allows a taxpayer with gross income of \$200,000 or less to deduct from gross income the amounts paid by the taxpayer to an in-State institution of higher education for tuition costs related to the taxpayer's enrollment or attendance at the institution of higher education or related to the enrollment or attendance of a spouse or dependent of the taxpayer at the institution. Under the bill, the deduction would not exceed \$10,000.

## **FISCAL ANALYSIS**

### ***EXECUTIVE BRANCH***

The Executive has not submitted a formal fiscal note on this bill. However, a press release from the Office of the Governor provides the following estimates: approximately \$16 million in foregone revenue for the NJBEST tax deduction established under the bill; approximately \$67 million in foregone revenue for the tax deduction for in-State tuition payments established under the bill; and approximately \$4 million in foregone revenue for the NJCLASS tax deduction established under the bill.

### ***OFFICE OF LEGISLATIVE SERVICES***

The OLS determines that the tax deductions established under this bill would result in a total annual State revenue loss ranging between \$87.2 million and \$105.9 million. Specifically, the OLS finds that: the tax deduction for NJBEST account contributions would result in annual State revenue losses of between \$9.5 million and \$11.7 million; the tax deduction for tuition payments at in-State institutions of higher education would result in annual State revenue losses of between \$71.2 and \$82.4 million; and the tax deduction for principal and interest payments on NJCLASS loans would result in annual State revenue losses of between \$6.5 million and \$11.9 million.

### **Tax Deduction for NJBEST Account Contributions**

This bill establishes a gross income tax (GIT) deduction for taxpayers with gross income of \$200,000 or less in the amounts contributed to an NJBEST program account, up to \$10,000 in contributions. To estimate the impact of this provision of the bill, the OLS first estimated the amount of NJBEST contributions that may be deductible under the bill. While the OLS did not have access to information that explicitly detailed the amount of contributions that could be deductible under the bill, previous information shared by the Higher Education Student Assistance Authority on a different bill that would have provided up to \$5,000 in GIT deductions for NJBEST contributions indicated that \$136.5 million in tax year 2018 contributions would have been eligible for that bill's deduction. Given that this bill provides a deduction for up to \$10,000 in annual contributions, the OLS first assumes that \$273 million in contributions would be deductible when prior to factoring in the bill's \$200,000 income limit. From there, the OLS allocates the estimated contribution amount in proportion to the distribution of tax returns filed for tax year 2016 by taxpayers with different filing statuses. The allocation is derived from information contained in the "Tax Year 2016 Statistics of Income" (SOI) published by the Office of Revenue and Economic Analysis in the New Jersey Department of the Treasury. The OLS then distributes the estimated allocation amounts among the different applicable tax brackets (up to \$200,000 in annual gross income) in proportion to each bracket's percentage share of total families in New Jersey, as provided in the Census Bureau's American Community Survey 1-Year Estimates for 2019. The resultant lower bound estimate of revenue loss for single and married filing separately taxpayers

equaled roughly \$5.7 million, while the revenue loss for married filing jointly, head of household, and qualifying widower taxpayers is approximately \$3.8 million.

To estimate the higher bound of the estimate for this tax deduction, the OLS conducted the same procedure as it did to estimate the lower bound, except that the OLS assumes that \$300 million in contributions would be eligible for a deduction prior to factoring in the bill's \$200,000 income limit. Doing so resulted in an estimated revenue loss of \$6.3 million for single and married filing separately taxpayers and a loss of \$5.5 million for married filing jointly, head of household, and qualifying widower taxpayers.

### **Tax Deduction for NJCLASS Payments**

The bill also allows a taxpayer with gross income of \$200,000 or less to deduct from gross income the amount of principal and interest payments paid on a student loan under the NJCLASS Loan Program, not to exceed \$2,500. According to the "FY 2020 Annual Report on the NJCLASS Loan Program," there are 121,532 outstanding NJCLASS loans with a total outstanding principal balance of approximately \$1.7 billion. Given this, the average NJCLASS principal loan amount is approximately \$13,665. Assuming an individual pays off the average loan over a ten-year time period, the average annual payment would be \$1,365. Therefore, the OLS estimates \$165.9 million in estimated NJCLASS payments, \$133.0 million of which would be deductible under the bill when factoring in the bill's \$200,000 income limit. Following the same process enumerated for deriving revenue losses for the NJBEST tax deduction, the OLS estimates, as a lower bound for the potential forgone revenue, \$3.5 million in losses derived from single and married filing separately taxpayers and \$3.0 million in losses derived from married filing jointly, head of household, and qualifying widower taxpayers.

To estimate the higher bound of the estimate for this tax deduction, the OLS conducted the same procedure as it did to estimate the lower bound, except that the OLS assumes maximum of \$303.8 million in NJCLASS principal payments. Approximately \$243.7 million of that amount would be deductible under the bill. Performing this calculation yields a revenue loss of \$6.3 million from single and married filing separately taxpayers and \$5.5 million in estimated losses from married filing jointly, head of household, and qualifying widower taxpayers.

### **Tax Deduction for In-State Tuition Deduction**

The bill allows a taxpayer with gross income of \$200,000 or less to deduct from gross income the amounts paid by the taxpayer to an in-State institution of higher education for tuition costs related to the taxpayer's enrollment or attendance at the institution of higher education or related to the enrollment or attendance of a spouse or dependent of the taxpayer at the institution. Under the bill, the deduction would not exceed \$10,000.

The OLS first estimated the number of State residents attending in-State institutions by using the most recent information concerning enrollment on the Office of the Secretary of Higher Education's (OSHE) website. The OLS then distributes this total number of resident students (444,974 students) to each higher education sector in accordance with the most recently reported proportionate shares for the applicable sectors. The OLS uses average tuition prices for each sector, in combination with the estimated number of students in the sector, to estimate total tuition that may be generated. To form the lower bound of this estimate, the OLS estimated tuition paid by students in each of the applicable sectors by assuming that a student or the student's family would actually pay 40 percent of the annual tuition costs, capped at \$10,000. Following the same procedures concerning income tax distribution as noted in the previous two deduction estimates, the OLS estimates \$38.0 million in revenue losses stemming from single and married filing

separately taxpayers. Approximately \$33 million in revenue losses would stem from married filing jointly, head of household, and qualifying widower taxpayers.

To form the upper bound estimate for this tax deduction, the OLS follows the same procedures it performed for the lower bound estimate, except the OLS assumes that a student or the student's family would actually pay 50 percent of the annual tuition costs, capped at \$10,000. Doing so resulted in an estimated revenue loss of \$44.0 million from single and married filing separately taxpayers and \$38.4 million from married filing jointly, head of household, and qualifying widower taxpayers.

### **One-Time Grants for Deposits into New NJBEST Accounts**

Lastly, the OLS estimates that the bill's provision of one-time grants of up to \$750 in a dollar-for-dollar match of the initial deposit to the account for taxpayers with gross income of \$75,000 or less will result in increased State expenditures. The OLS does not have access to information concerning the number of new NJBEST accounts initiated each year and therefore cannot project the amount of increased State expenditures. The bill, however, provides for a General Fund appropriation of \$10 million for this purpose.

*Section: Education*

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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.).