

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 4065

with committee amendments

STATE OF NEW JERSEY

DATED: NOVEMBER 8, 2021

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 4065, with committee amendments.

This bill revises the State's child and dependent care tax credit for tax year 2021. The credit is based on the federal credit and is available to taxpayers who incur expenses for certain household services and child care services, which enable the taxpayer to be employed.

The bill revises the credit so that it will be refundable in tax year 2021. This means that a taxpayer could receive a cash refund if the credit amount is in excess of their gross income tax liability. Under current law, the credit is nonrefundable, and therefore, if the credit is in excess of the taxpayer's gross income tax liability then the taxpayer may not be able to claim the full tax credit amount.

The bill also revises the income requirements for the credit so that taxpayers who have New Jersey taxable income of \$150,000 or less in tax year 2021 can claim the credit compared to \$60,000 or less under current law. In addition, the bill removes the current caps of \$500 for employment-related expenses paid by the taxpayer for one child or dependent and \$1,000 for employment-related expenses paid by the taxpayer for two or more children or dependents.

Finally, the bill revises the calculation of the tax credit in tax year 2021. Specifically, the credit would be calculated as follows: persons with income not over \$30,000 would receive a credit equal to 50 percent of the federal credit; persons with income over \$30,000, but not over \$60,000, would receive a credit equal to 40 percent of the federal credit; persons with income over \$60,000, but not over \$90,000, would receive a credit equal to 30 percent of the federal credit; persons with income over \$90,000, but not over \$120,000, would receive a credit equal to 20 percent of the federal credit; and persons with income over \$120,000, but not over \$150,000, would receive a credit equal 10 percent of the federal credit.

COMMITTEE AMENDMENTS:

The committee amendments make the changes to the tax credit solely applicable to tax year 2021.

FISCAL IMPACT:

“The Office of Legislative Services expects the bill, as amended, to reduce State revenues by \$82.6 million for FY 2022. The Executive originally proposed a similar expansion of the State’s child and dependent care tax credit as part of the FY 2022 Governor’s Budget Recommendation. As noted on page 53 of the FY 2022 Budget in Brief, the child and dependent care tax credit produces a revenue loss of about \$11.5 million annually. The expansion of the program was originally anticipated to reduce revenues by an additional \$17.2 million annually. However, the federal American Rescue Plan Act of 2021 made several changes to the federal credit for TY 2021 only, which affects the calculation of the State’s credit for FY 2022. Based on the changes to the federal credit, the Executive revised its estimate of the expansion to \$76.2 million for TY 2021 (FY 2022 impact). Differences in data sources and methodology contribute to the minor difference in the Executive’s and the OLS’s estimates.”