
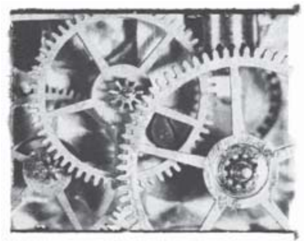

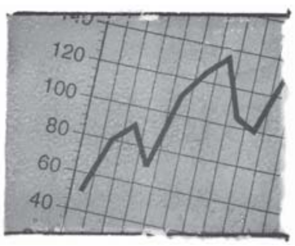


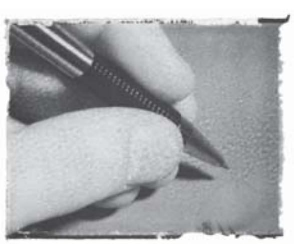


ANALYSIS OF THE NEW JERSEY BUDGET

TAX AND REVENUE OUTLOOK

FISCAL YEAR 2016-2017

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2016

NEW JERSEY STATE LEGISLATURE

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Questions or comments may be directed to the OLS Revenue, Finance and Appropriations Section (609-847-3835) or the Legislative Budget and Finance Office (609-847-3105).

The FY 2016 and FY 2017 Tax and Revenue Outlook

Introduction

The Office of Legislative Services (OLS) has prepared this report to assist the Senate Budget and Appropriations Committee and the Assembly Budget Committee as they develop the FY 2017 annual appropriations bill. The OLS revenue estimates rely on a review of current State revenue collections, revisions to statutory law, historical revenue collection patterns, and a variety of economic data and forecasts, as well as professional judgment.

The OLS projects that combined FY 2016 and FY 2017 revenues will be $162.1 million less than the estimates in the FY 2017 Governor's Budget Recommendation. Specifically:

- For FY 2016, the OLS revenue estimates are $73.2 million, or 0.2%, below the Executive budget estimates (page 2).

- For FY 2017, the OLS revenue estimates are $88.9 million, or 0.3%, below the Executive budget estimates (page 3).

Contents **Page**

Fiscal Year 2016 Revenue Estimates

Figure 1
Fiscal Year 2016 Revenue Estimates
($ millions)

	Appropriations Act Certified	Governor's Budget Message: Revised Amount	Governor's Budget Message: Change	OLS Est. Amount	OLS vs. GBM Difference
Gross Income Tax	$13,930.0	$13,758.0	-$172.0	$13,758.0	$0.0
Sales Tax*	9,079.7	9,315.8	236.1	9,275.0	-40.8
Corporation Bus. Tax*	2,609.2	2,336.0	-273.2	2,280.0	-56.0
CBT Banks & Financials	165.0	155.3	-9.7	140.0	-15.3
State Lottery Fund Transfer	1,000.0	965.0	-35.0	965.0	0.0
Inheritance Taxes	755.0	828.1	73.1	860.0	31.9
Motor Fuels	534.9	556.6	21.7	545.0	-11.6
Realty Transfer Fee	309.1	309.1	0.0	311.9	2.8
Petroleum Products	215.0	218.1	3.1	215.0	-3.1
Cigarette Tax	147.6	163.6	16.0	179.1	15.5
$1 Million Assessed Properties	129.0	114.8	-14.2	118.2	3.4
Other Revenues*	5,048.9	5,080.4	31.5	5,080.4	0.0
Grand Total, All Funds	**$33,923.4**	**$33,800.8**	**-$122.6**	**$33,727.6**	**-$73.2**

See appendices for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 1 presents the FY 2016 revenue certification from the Appropriations Act (June 2015), the Executive's revisions as presented in the February 2016 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

Executive

- Revised estimates for total revenues are down by $122.6 million from the level certified in the FY 2016 Appropriations Act.
- The estimate for the gross income tax is down $172.0 million.
- The estimate for the sales tax is up $236.1 million.
- The estimate for the corporation business tax is down $273.2 million.
- State Lottery Fund transfer is down $35.0 million.
- The inheritance taxes estimate is up $73.1 million.
- The estimate for the cigarette tax is up $16.0 million.

Office of Legislative Services

- The total revenue estimate for FY 2016 is **$73.2 million below** the Executive's revised projection.
- The estimate for the gross income tax is the same as the Executive's.
- The estimate for the sales tax is $40.8 million below the Executive's.
- The estimate for the corporation business tax is $56.0 million below the Executive's.
- The Lottery estimate is the same as the Executive’s.
- The inheritance taxes estimate is $31.9 million above the Executive's.
- The estimate for the cigarette tax is $15.5 million above the Executive's.

Fiscal Year 2017 Revenue Estimates

Figure 2
Fiscal Year 2017 Revenue Estimates
($ millions)

	Governor's Budget Message		OLS Estimates		
	Amount	Annual Growth	Amount	Annual Growth	OLS vs. GBM Difference
Gross Income Tax	$14,424.6	4.8%	$14,400.0	4.7%	-$24.6
Sales Tax*	9,597.4	3.0%	9,597.4	3.5%	0.0
Corporation Bus. Tax*	2,336.0	0.0%	2,180.0	-4.4%	-156.0
CBT Banks & Financials	155.3	0.0%	140.0	0.0%	-15.3
State Lottery Fund Transfer	965.0	0.0%	965.0	0.0%	0.0
Inheritance Taxes	848.5	2.5%	900.0	4.7%	51.5
Motor Fuels	545.6	-2.0%	555.0	1.8%	9.5
Realty Transfer Fee	330.4	6.9%	338.4	8.5%	8.0
Petroleum Products	218.1	0.0%	218.1	1.4%	0.0
Cigarette Tax	126.5	-22.7%	162.0	-9.5%	35.5
$1 Million Assessed Properties	124.5	8.5%	127.1	7.5%	2.6
Other Revenues*	5,160.3	1.6%	5,160.3	1.6%	0.0
Grand Total, All Funds	**$34,832.2**	**3.1%**	**$34,743.3**	**3.0%**	**-$88.9**

See appendices for additional detail. Numbers may not add due to rounding.
GBM = Governor's Budget Message. * Sales and corporate energy revenues are in Other Revenues.

Figure 2 displays the Executive FY 2017 revenue estimates as presented in the February 2016 Governor's Budget Message and the OLS forecast. Highlights of the revenue estimates include:

Executive

- The total revenue estimate is $1.031 billion above FY 2016, a 3.1% increase.
- The gross income tax estimate is up $666.6 million, or 4.8%.
- The sales tax estimate is up $281.6 million, or 3.0%.
- The corporation business tax estimate is the same as the prior year.
- The inheritance taxes estimate is up $20.4 million, or 2.5%.
- The cigarette tax estimate is down $37.1 million, or 22.7%.
- The CBT banks and financials estimate is the same as the prior year.

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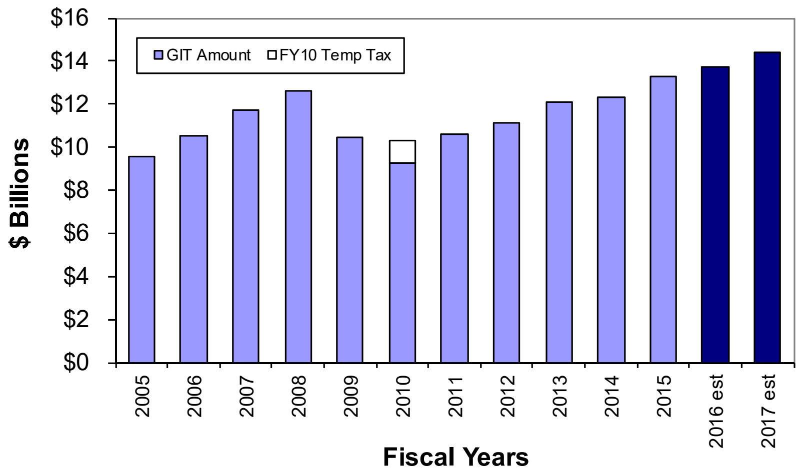
- The total revenue estimate for FY 2017 is **$88.9 million below** the Executive's projection, a 3.0% increase above the OLS estimated FY 2016 total.
- The gross income tax estimate is $24.6 million below the Executive's.
- The sales tax estimate is the same as the Executive's.
- The corporation business tax estimate is $156.0 million below the Executive's.
- The inheritance taxes estimate is $51.5 million above the Executive's.
- The cigarette tax estimate is $35.5 million above the Executive's.
- The CBT banks and financials estimate is $15.3 million below the Executive's.

Gross Income Tax

Figure 3: Annual Gross Income Tax Revenue



Note: Unless otherwise referenced, all graphs display actual or OLS estimated revenues.

Gross income tax (GIT) revenues in FY 2015 finally surpassed the peak achieved in FY 2008, prior to the Great Recession. **Figure 3** displays total GIT collections since FY 2005, including the $13.250 billion recorded in FY 2015 and the continued growth projected for FY 2016 and FY 2017.

Fiscal Year 2016

The Executive has decreased its estimate for FY 2016 by $172.0 million from the amount certified in June, to $13.758 billion, 3.8% growth over FY 2015. The biggest factor in the Executive's reduced estimate is the enactment of P.L. 2015, c. 73, which increased the State's Earned Income Tax Credit (NJ EITC) from 20% to 30% of the federal credit. The Executive expects the enhanced NJ EITC to reduce GIT revenues by $122 million.

The OLS concurs with the Executive estimate for FY 2016 given current underlying trends. However, a recent upsurge in refund payments is an area of potential concern. Through the first seven months of FY 2016, the GIT was up 4.3% compared to the same period last year. Then, a surge in refund payments yielded a decline in net revenues in February, pushing year-to-date growth through eight months down to only 2.6%.[1] Total refund payments are running ahead of last year's pace by 26.8%. This is due in part to the enhanced NJ EITC and to accelerated refund processing. The refund surge is expected to moderate in the coming months.

Withholding receipts from employee wages, which historically account for about three-quarters of annual GIT revenue, are up only 2.4%, weaker than expected. Declining bonus payments may explain some of this weakness, as the Office of the New York State Comptroller recently reported that Wall Street bonuses were down 9% in 2015. Quarterly estimated payments are up a strong 8.6% overall, but those payments grew by a more moderate 4.8% combined in December and January, the last quarterly payments for the tax year.

[1] Preliminary figures suggest that the refund surge will continue to hold down net growth in March.

Growth in estimated payments for December and January combined are often a leading indicator for growth in the important final payments taxpayers make in April. The OLS believes that growth of 5.0% is possible for the historically volatile April final payments.

Accordingly, the OLS currently agrees with the Executive that $13.758 billion is achievable for the GIT in FY 2016. However, if the refund surge does not abate as expected, then the estimated total collections for FY 2016 will not be achieved.

Fiscal Year 2017

Both the Executive and OLS anticipate that GIT growth will improve slightly in FY 2017. The Executive projects 4.8% growth, yielding $14.425 billion. The OLS projects 4.7% growth, yielding $14.400 billion, $24.6 million less than the Executive. These projected growth rates are consistent with forecasts in other states. The median state forecast for personal income tax growth is 4.6% in FY 2017.[2]

The OLS FY 2017 estimate assumes growth in withholding receipts of 4.0%, in estimated payments of 5.0%, in final payments of 5.0%, and a 2.0% increase in underlying refund payments. Refund growth is offset by an $80 million increased allocation of federal Temporary Assistance for Needy Families funding to support the NJ EITC.

Estimated and final payments are a primary source of GIT revenue forecasting uncertainty. These payments come predominantly from high-income taxpayers and largely reflect non-wage income sources. As such, GIT revenue growth is highly influenced by the variable performance of the financial markets, which impacts high-income taxpayers through capital gains, certain kinds of business income, as well as bonus income. Income changes for a small portion of the tax paying population can have a large impact on GIT revenues. For example, the number of resident tax returns with income over $500,000 reached a new high of 49,074 in Tax Year 2012. These taxpayers accounted for 1.8% of total taxable returns, 24.3% of gross income, and 41.3% of tax payments.[3] Changes in these high-income returns are highly correlated with growth and decline in the stock markets.[4]

While the OLS projects modest GIT growth for FY 2017, similar to the Executive and forecasters in other states, estimating GIT revenue is subject to uncertainty from important income-producing factors such as the value of stocks. Continued weakness in financial markets would likely restrict GIT growth in FY 2017, while a sustained improvement would accelerate GIT growth.

The OLS GIT forecast is constructed from an analysis of the four separate components of the GIT cash flow:

- **Withholding**: Paid throughout the year by employers from amounts deducted from workers' paychecks (including bonuses and some stock options);
- **Estimated Payments**: Generally paid quarterly in April, June, September, and December/January by taxpayers with significant non-wage income, such as capital gains, dividends, and partnership income;
- **Final Year-End Payments**: Due each April, reconciling the prior tax year liability. Generally paid by taxpayers with significant non-wage income;
- **Refund Payments**: Paid by the State to taxpayers whose April tax filings show tax payments exceeding tax liability.

[2] *By the Numbers Brief*, December 2015, The Nelson A. Rockefeller Institute of Government, State University of New York.

[3] See the background report on *Tax Rates and Income Distributions from 1997 to 2012* beginning on appendices page A-17.

[4] See Figure 4, appendices page A-20.

Sales Tax

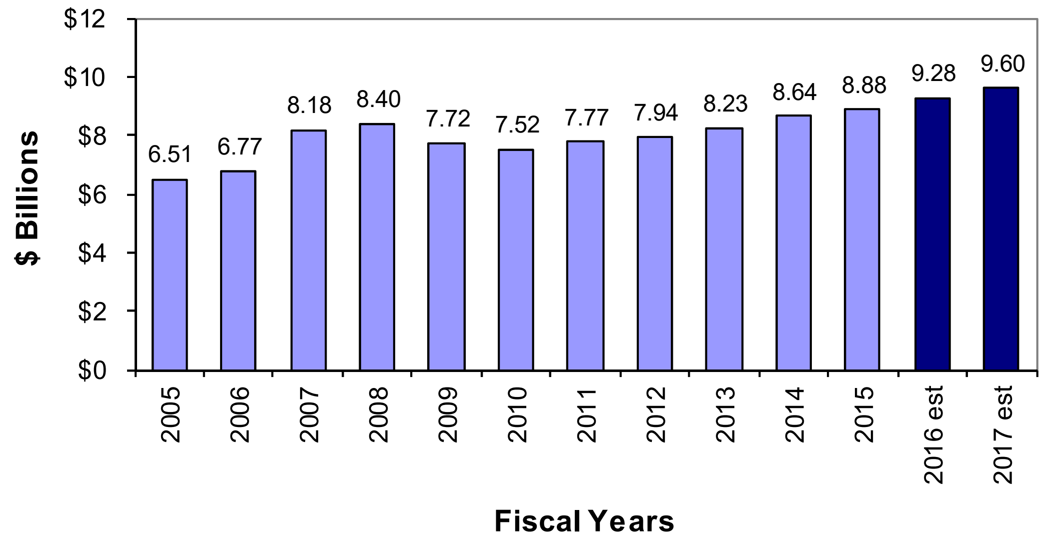
The sales tax is among the steadiest of the major tax revenues, generally providing reliable, moderate rates of growth. In the years following the Great Recession, growth averaged 3.4%, and varied only within a narrow range of 2.2% and 4.9% from FY 2011 through FY 2015.

FY 2016 performance is close to the high end of the post-recession range, up 4.5% through the end of February compared to the same months last year. The Executive increased its estimate from the $9.080 billion certified last June to $9.316 billion, an increase of $236.1 million. The Executive expects the sales tax to grow by 5.0% in FY 2016, and by a moderate 3.0% in FY 2017, to $9.597 billion.

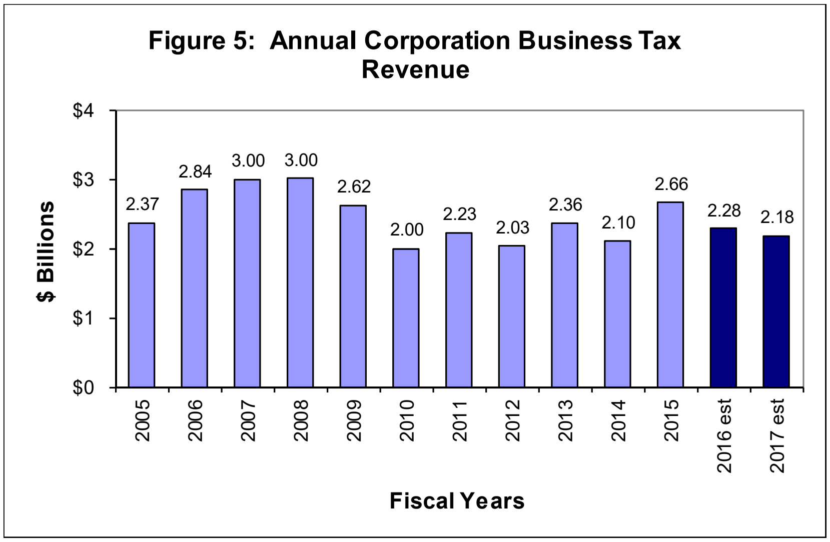
Nationally, sales tax revenue growth has been modest, with a median state growth of 4.7% in FY 2015 and median projected state growth slowing to 4.2% for FY 2016 and 3.9% in FY 2017, according to the Rockefeller Institute of Government.

Based on current trends, the OLS is slightly more cautious than the Executive for FY 2016, projecting $9.275 billion, 4.5% growth over last year, and $40.8 million less than the Executive's projection. In FY 2017, the OLS concurs with the Executive's $9.597 billion projection, forecasting growth of 3.5% from a slightly lower base, consistent with average growth since the end of the Great Recession.

Figure 4: Annual Sales Tax Revenue



Corporation Business Tax



The corporation business tax (CBT) is among the most difficult revenues to project. Annual collections typically include both payments and refunds from multiple tax years. Corporate accounting practices and various tax credits also impact annual payments. Furthermore, the detailed component data available for the gross income tax are not available for the CBT. Analytically, the CBT is somewhat of a "black box" for revenue estimators.

Cash in the door is often the best data available, and CBT tax revenue in FY 2016 is down 18.0% through the end of February. The Executive reduced its FY 2016 estimate by $273.2 million from the level certified in June, but believes the severity of the decline will not continue through the remainder of the year, projecting an FY 2016 total of $2.336 billion, 12.0% below the prior year.

The Executive believes it is "prudent to forecast a flat growth rate for (FY) 2017."[5] That yields the same $2.336 billion as in FY 2016, due to underlying growth offset by the impact of increased business tax credits.

Given the year-to-date decline of 18.0% through the first eight months, the CBT rate of decline must improve to 5.6% for the last four months to hit the Executive's FY 2016 target. The OLS believes a decline of 10.0% in the remaining months is more likely, yielding an overall estimate of $2.280 billion, $56.0 million below the Executive's estimate.

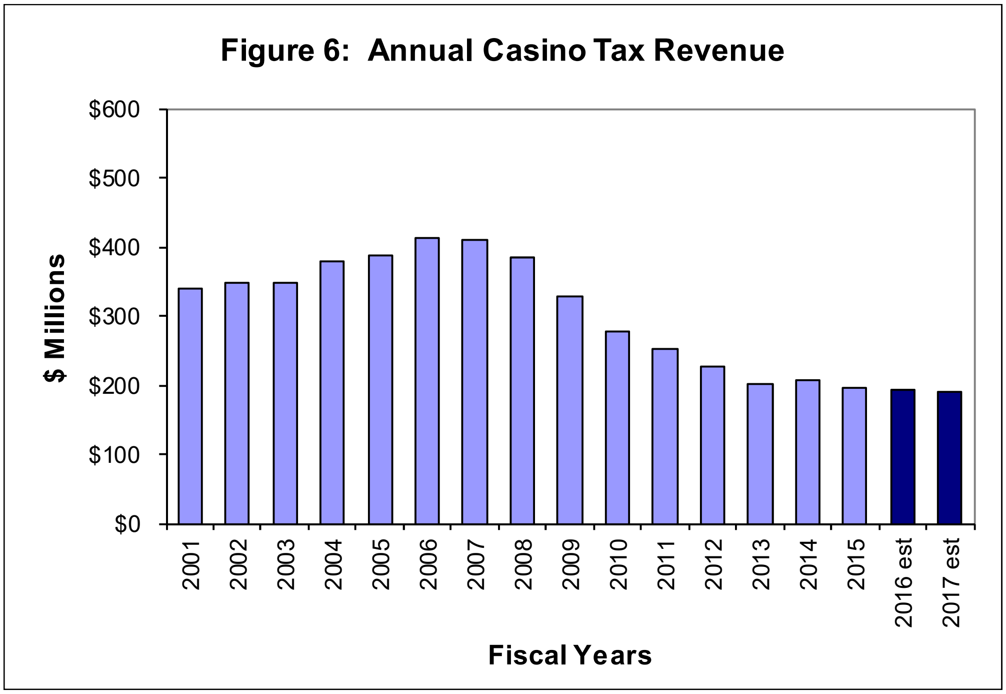
For FY 2017, the Executive's perspective that the CBT may be in a "pattern of decreasing one year and increasing the next"[6] is observable, but not well understood. In addition, the impact of CBT tax credits becomes increasingly important. The Division of Taxation's *Report on Tax Expenditures in New Jersey* estimates that various CBT tax credits will reduce collections by $113.7 million in FY 2016 and by $454.2 million in FY 2017.[7] The OLS assumes underlying CBT revenue before credits will rebound to 10.0% growth, which after subtracting the $454.2 million in anticipated tax credits, results in an estimated FY 2017 total of $2.180 billion, $156.0 million below the Executive's projection.

[5] *FY 2017 Budget Summary*, page 32, February 16, 2016, Office of Management and Budget.

[6] *FY 2017 Budget Summary*, page 32.

[7] See the background report on *Economic Development Tax Credit Awards* beginning on appendices page A-7.

Casino Tax Revenue



From FY 2006 to FY 2013, casino tax collections deposited into the Casino Revenue Fund plummeted 51%, from $413.3 million to $201.9 million. The decline halted briefly in FY 2014, as the $208.1 million total was boosted by new internet gambling revenues. But the decline resumed to $196.8 million in FY 2015 and is expected to continue in FY 2016 and FY 2017. **Figure 6** displays the downward trend that has persisted even with the slow economic recovery.

Although the Great Recession added to the decline, competition from new casinos in other states is seen as the primary cause of the fall. The decrease in visitors to Atlantic City drove down gambling activity and the State's casino tax revenue. In 2014, four of Atlantic City's 12 casinos closed. Three of the eight remaining casinos have since filed for bankruptcy protection.

To supplement casino revenues, internet gambling began late in 2013, with initial Executive tax revenue projections in excess of $160.0 million per year. Actual collections in FY 2014 yielded $10.7 million followed by $19.8 million in FY 2015. Through the first eight months of FY 2016, internet gambling has booked $16.0 million. The OLS anticipates continued modest growth in this component of the casino tax revenues.

Through the end of February, overall casino tax revenues are down 2.4% year-to-date. The Executive has slightly reduced its FY 2016 casino tax estimate, from $194.2 million certified last June to $193.6 million. The Executive projects a continued decline for FY 2017, to $190.2 million. The OLS believes the pattern of decline is likely to continue and concurs with the Executive's estimates.

Other Selected Revenues

Figure 7: Cigarette Tax Estimates and Distributions

Millions of Dollars

	Actual	Executive Estimates		OLS Estimates		OLS Difference	
	FY2015	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
Total Collections All Sources	**$692.2**	**$667.9**	**$627.5**	**$683.4**	**$663.0**	**$15.5**	**$35.5**
Less, Health Care Subsidy Fund	-396.5	-396.5	-396.5	-396.5	-396.5	0.0	0.0
Less, Dedication for Debt Service	-111.3	-107.8	-104.5	-107.8	-104.5	0.0	0.0
Total Collections On-Budget	**$184.4**	**$163.6**	**$126.5**	**$179.1**	**$162.0**	**$15.5**	**$35.5**

Cigarette Tax

In recent fiscal years, the cigarette tax has generated close to $700 million in annual State receipts. But only a portion of this amount appears as budgeted General Fund revenue (see **Figure 7**). In FY 2015, for example, the State received $692.2 million in total cigarette tax collections. Of that total, $396.5 million supported the off-budget Health Care Subsidy Fund, $111.3 million was used off-budget to pay debt service on cigarette tax revenue securitization bonds, and $184.4 million was accounted for on-budget as General Fund revenue.

The Executive projects $163.6 million in FY 2016 on-budget cigarette tax receipts. This estimate assumes a 3.5% rate of decline in taxed cigarette sales from FY 2015. However, through February 2016, the rate of decline was only 0.45%. The OLS expects the decline to continue, but deems it improbable that sales will post the 10.0% decrease required in the remaining months of FY 2016 to fall to the Executive's revenue estimate. Consequently, the OLS forecasts $179.1 million in FY 2016 collections, a 1.3% decrease in taxed cigarette sales from FY 2015, and a 3.0% year-on-year drop in the remaining months of FY 2016.

For FY 2017, the Executive assumes that taxed cigarette sales will recede by 6.0%; however, the OLS projects taxed cigarette sales will recede by 3.0%, in line with historical rates. Specifically, the Executive forecasts $126.5 million in FY 2017 on-budget General Fund receipts, or a 22.7% decline from its FY 2016 estimate. The OLS pegs the FY 2017 number at $162.0 million, or a 9.5% decline from its FY 2016 estimate.

The relatively dramatic anticipated year-on-year decreases reflect the structure of the cigarette tax's revenue allocation. The statutory law shields from the effects of eroding cigarette sales the fixed $396.5 million off-budget Health Care Subsidy Fund dedication and, up to a point, the required off-budget debt service payments on cigarette tax revenue securitization bonds. The remaining on-budget portion of cigarette tax collections will absorb the entire revenue loss from the anticipated 3.0% decline in taxed cigarette sales. In FY 2017, the on-budget portion of cigarette tax collections would drop at a larger rate were it not for a slight decrease in required off-budget debt service payments on cigarette tax revenue securitization bonds. The debt service payments will drop by $3.3 million from $107.8 million in FY 2016 to $104.5 million in FY 2017.

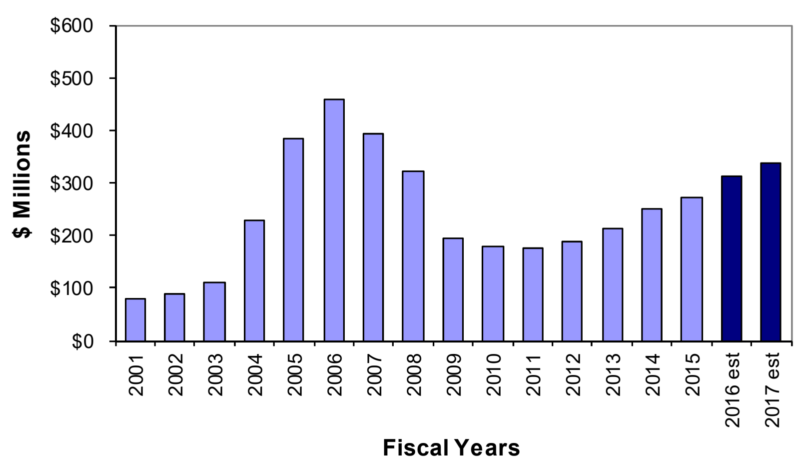
Realty Transfer Fees

Since FY 2003, the realty transfer fee has experienced a boom-and-bust cycle with highs and lows more pronounced than those of any other major State revenue. **Figure 8** shows that fee collections more than quadrupled from $109.3 million in FY 2003 to $459.7 million in FY 2006. Most of that surge was attributable to FY 2004 and FY 2005 rate increases. Even without rate increases, however, the boom in the real estate market would have propelled annual collections upwards by about 65% over the three-year period. From the FY 2006 peak, collections then tumbled by 62% through FY 2011. Since then, the real estate market has continued to rebound and realty transfer fee collections have as well. After five straight years of decline, the revenue source posted its fourth consecutive annual increase in FY 2015. The upward trajectory has continued in FY 2016, with further growth anticipated in FY 2017.

The Executive estimates $309.1 million in FY 2016 realty transfer fee revenue, or 13.6% growth over FY 2015, and $330.4 million in FY 2017, or 6.9% growth over FY 2016. The OLS shares the expectation that fee collections will rise in FY 2016 and FY 2017, but is slightly more optimistic than the Executive. FY 2016 year-to-date collections through February are up 14.6%. Over the remaining months of the fiscal year, realty transfer fee revenues would have to grow 11.85% to reach the Executive's year-end projection. The OLS estimates a higher $311.9 million in FY 2016 fee revenue and $338.4 million in FY 2017, given the growth of revenues over recent months. The FY 2016 estimate reflects a 14.6% growth rate over FY 2015 and the FY 2017 estimate an 8.5% growth rate over FY 2016.

The Executive has slightly reduced the outlook for the separate **one-percent assessment on property sales valued over $1 million**. The Executive now forecasts $114.8 million in FY 2016 assessment collections, reflecting a 10.6% growth rate, and then projects 8.5% growth in FY 2017, which yields $124.5 million. Through February, actual collections are up about 15.5% over FY 2015. To achieve the Executive's FY 2016 projection, collections over the remaining months would have to decline by 1.3%. Given recent growth and year-over-year trends, the OLS estimates a higher $118.2 million in FY 2016, 13.9% growth over FY 2015 and 10.0% growth through the remainder of the current fiscal year. Additionally, the OLS agrees that revenue growth will decelerate in FY 2017, projecting $127.1 million, 7.5% growth over FY 2016.

Figure 8: Annual Realty Transfer Fee Revenue



CBT on Banks and Financial Institutions

The corporation business tax on banks and financial institutions (CBT B&F) raises a fraction of the revenue of the "regular" CBT. Through the end of February, the CBT B&F is running 29.1% behind the same period last year. The Executive reduced its estimate for FY 2016 from the $165.0 million certified last June to $155.3 million, an increase of 22.1% over FY 2015. For FY 2017, the Executive assumes flat revenue of $155.3 million.

At the end of FY 2015, the CBT B&F dropped by $50.0 million due to unusual refund activity unlikely to recur in FY 2016. The OLS agrees with the Executive that the current decline will be reversed and that total FY 2016 revenue will exceed FY 2015. The OLS estimates a year-end growth of 10.0% to $140.0 million in FY 2016. In FY 2017, the OLS agrees with the Executive's assumption of no growth. Thus, the OLS is $15.3 million below the Executive in each fiscal year.

Motor Fuels Taxes

Motor Fuels tax revenue peaked at $566.8 million in FY 2004. Since the end of the Great Recession, tax revenues have fluctuated during a period of highly variable retail fuel prices.[8] The Executive pushed up its FY 2016 estimate for the motor fuels tax from $534.9 million certified last June, to $556.6 million, 3.9% growth over FY 2015. For FY 2017, the Executive projects a 2.0% decline to $545.6 million. However, year-to-date, motor fuels tax revenue is up only 0.4% through the end of February. Fuel prices have been low and some improved sales are likely. However, the OLS does not believe motor fuels taxes can achieve the 8.8% growth over the remaining months of FY 2016 necessary to reach the Executive's year-end target. Accordingly, the OLS is estimating $545.0 million for FY 2016, up 1.8% for the year, but $11.6 million less than the Executive. For FY 2017, the OLS projects steady 1.8% growth to $555.0 million, or $9.5 million less than the Executive.

Petroleum Products Gross Receipts Tax

The Executive increased its FY 2016 estimate for the petroleum products gross receipts tax from the certified level of $215.0 million to $218.1 million, or 1.4% growth over last year. For FY 2017, the Executive estimates this revenue will remain flat at $218.1 million. The tax is running 3.1% below last year through the end of February. Based on the currently weak trend, the OLS estimates $215.0 million in FY 2016, $3.1 million less than the Executive. For FY 2017 the OLS estimates $218.1 million, the same as the Executive, but growing 1.4% off a slightly lower FY 2016 base.

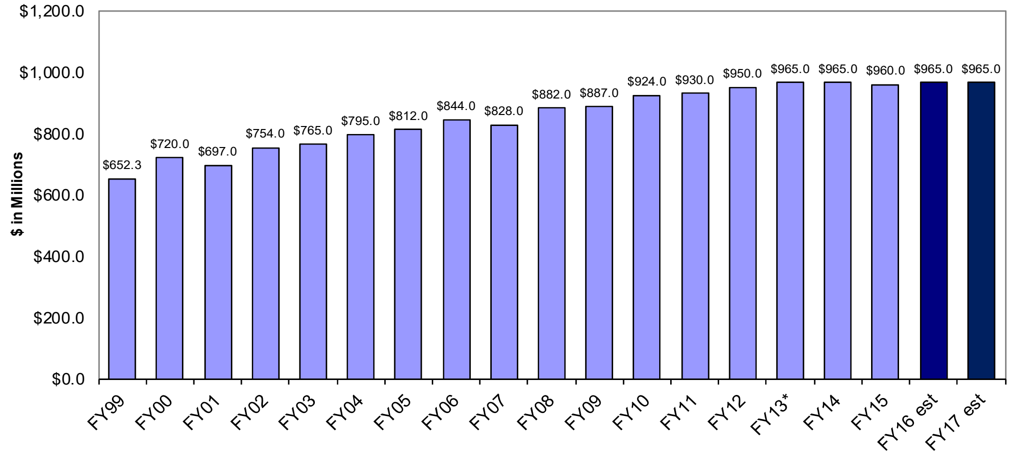
Inheritance Taxes

Inheritance tax collections consist of revenues from two inter-related taxes: the transfer inheritance tax and the estate tax. Historically, each tax has produced about 50% of the overall total. The Executive increased its estimate for these combined taxes in FY 2016 from the $755.0 million certified last June to $828.1 million, assuming growth of 4.4% over FY 2015. For FY 2017, the Executive estimates $848.5 million, or growth of 2.5%.

Actual growth this fiscal year is 16.3% through the end of February. This revenue often tracks with long-term growth in assets such as stocks and real property. The OLS expects year-end growth to moderate due to an extraordinary jump in the base last spring, which is unlikely to recur. The OLS projects $860.0 million in FY 2016, up 8.4% from last year, $31.9 million above the Executive's revised estimate. The OLS projects $900.0 million in FY 2017, up a moderate 4.7%, or $51.5 million above the Executive's estimate.

[8] See the background report on *Gasoline Taxes – Motor Fuels and Petroleum Products Gross Receipts* beginning on appendices page A-26.

Figure 9: Annual State Lottery Revenues



* FY13 excludes the $120 million one-time contractor prepayment. In October 2013 a private contractor took over management of the Lottery's sales and marketing functions.

State Lottery Fund

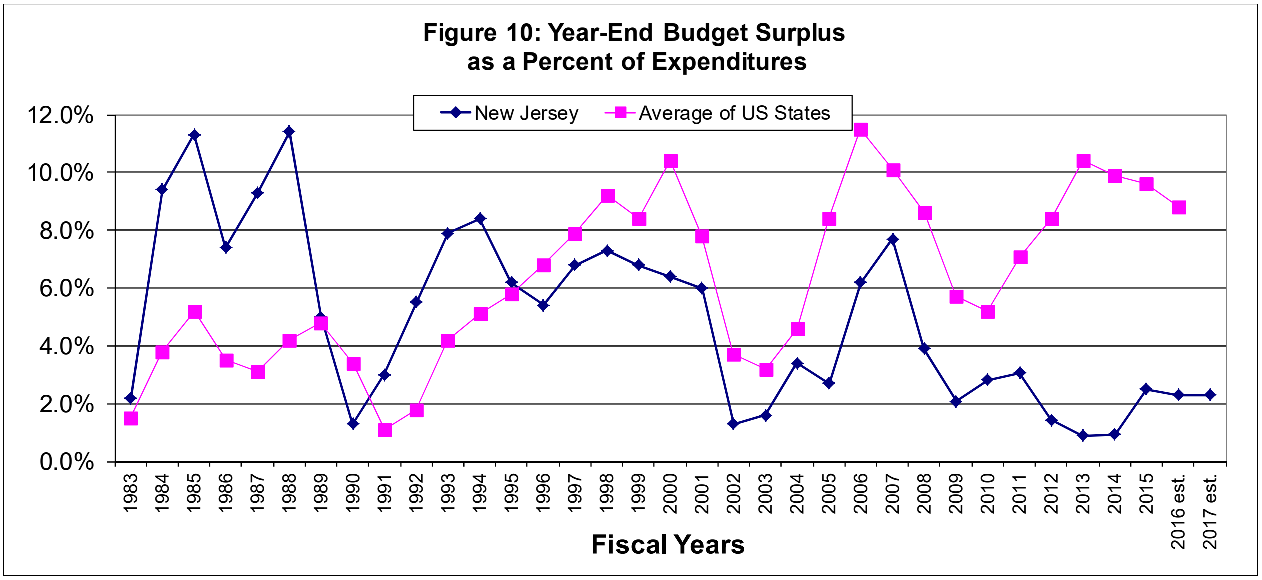
State Lottery revenues differ from other revenues in two ways. First, Lottery revenues do not represent gross collections, but net income after deducting business expenses. Second, the budget line captures only the amount the Executive decides to transfer each fiscal year out of unexpended State Lottery Fund balances to the General Fund. In determining the annual transfer, the Executive is statutorily required to contribute at least 30% of ticket sales receipts to State institutions and State aid for education.

Since FY 2012, the State Lottery Fund has contributed between $950.0 million and $965.0 million annually to the General Fund (**Figure 9**). The relative lack of growth in the State Lottery Fund transfer is largely the result of Lottery net income developments that appear to have been part of a broader national trend. Specifically, higher-margin draw game ticket sales, Mega Millions and Powerball, have been declining, while lower-margin instant game ticket sales have been increasing.

In June 2015, the Governor certified a $1.0 billion transfer to the General Fund for FY 2016, 4.2% more than the $960.0 million transferred in FY 2015. The Executive revised the FY 2016 transfer estimate downward to $965.0 million, a reduction of $35.0 million. For FY 2017, the Executive estimates a flat $965.0 million transfer.

The OLS agrees with the Executive's estimates of $965.0 million for FY 2016 and FY 2017. However, the OLS notes that January Lottery receipts were up a strong 59.1%, due to a windfall from the $1.5 billion Powerball jackpot. It is reasonable to assume that Lottery revenues are positioned to exceed the Executive's revised FY 2016 estimate. But the Executive controls the amount of the annual transfer, subject to the statutory requirement. For that reason, the OLS cannot forecast the extent to which any Lottery windfall may yield additional General Fund revenues in FY 2016. The percentage of Lottery gross ticket sales receipts transferred to the General Fund was 33.3% in FY 2014 and 32.0% in FY 2015. The Executive estimates the percentage to decrease to 31.3% in FY 2016 and increase slightly to 31.5% in FY 2017.

The Budget's Year-End Balance



Revenue shortfalls and unplanned expenditures can destabilize the budgets of governments with balanced budget requirements. Contingency reserves, such as rainy day funds, are intended to mitigate potentially disruptive short-term fiscal stress by providing emergency budget resources out of previously saved surplus balances.

An October 2015 report by the New England Public Policy Center,[9] argues that rainy day funds have generally been too small to offset revenue shortfalls. The report suggests that old "rules of thumb," such as the National Conference of State Legislatures' recommendation that reserves equal 5% of annual expenditures, should be more nuanced based on the unique spending requirements and revenue vulnerabilities of individual states. Further, the Center estimates a "worst-case" rainy day fund equivalent of 6.9% of expenditures for all U.S. states in the aggregate, while noting some policy groups recommend reserves of 15% or more of annual expenditures.

In New Jersey, the Executive projects an FY 2017 year-end balance of $789.8 million, 2.3% of budgeted expenditures. As part of its annual analysis, the OLS recalculates the State's year-end budgeted balance based solely on the revenue forecast differences between the Executive and the OLS. All other things being equal, the $162.1 million lower OLS revenue estimates would produce a year-end surplus of $627.7 million or 1.8% of FY2017 expenditures.

The Executive's projected 2.3% surplus is low by both historical and national standards, but an improvement over the 0.9% surplus recorded in FY 2013 and FY 2014.

As reflected in **Figure 10**, over the last 34 years the State's actual surplus has exceeded 2.0% of expenditures 28 times, largely tracking, although rarely meeting, the average attained by other states. And while two of the six years during which State surpluses fell below 2.0% were impacted by economic

[9] *Achieving Greater Fiscal Stability: Guidance for the New England States*, Yolanda K. Kodrzycki and Bo Zhao, New England Public Policy Center Research Report 15-2, October 2015. Federal Reserve Bank of Boston.

recessions (FY 1990 and FY 2002), three of those low points have occurred since FY 2012. Comparatively, the national average of all states' surpluses has not fallen below 2.0% since FY 1992, and has exceeded 4.0% in each of the last 13 years, according to an annual survey compiled by the National Association of State Budget Officers. Meanwhile, nationally, the long-run average state surplus is 6.0%, and has topped 8.0% since FY 2012.

Ultimately, the actual year-end balance will be determined by numerous spending decisions as well as revenue collections. Decisions on these and other matters will be made by the Executive, both budget committees and the full Legislature during the next three months and throughout the next fiscal year.

Appendices Contents Page

Detailed Fiscal Year 2016 Revenue Estimates

Millions of $

Revenue Source	Appropriations Act (June 2015)	Executive Revised	OLS	Diff: OLS - Executive
Major Taxes:				
Sales Tax, Total	**$8,543.2**	**$8,769.9**	**$8,729.1**	**-$40.8**
Sales Tax, Base	*9,079.7*	*9,315.8*	*9,275.0*	*-40.8*
Dedicated Transfer to PTRF	*-688.0*	*-705.9*	*-705.9*	*0.0*
Sales Tax, Energy	*151.5*	*160.0*	*160.0*	*0.0*
Corporation Business Tax, Total	**$2,697.2**	**$2,358.0**	**$2,302.0**	**-$56.0**
Corporation Business Tax, Base	*2,609.2*	*2,336.0*	*2,280.0*	*-56.0*
Corporation Business Tax, Energy	*88.0*	*22.0*	*22.0*	*0.0*
Inheritance Taxes	755.0	828.1	860.0	31.9
Motor Fuels Tax	534.9	556.6	545.0	-11.6
Insurance Premiums Tax	660.0	668.7	668.7	0.0
Realty Transfer Fee	309.1	309.1	311.9	2.8
Motor Vehicle Fees	472.1	479.1	479.1	0.0
Cigarette Tax	147.6	163.6	179.1	15.5
Petroleum Products Gross Receipts Tax	215.0	218.1	215.0	-3.1
Corp. Business Tax - Banks and Financial	165.0	155.3	140.0	-15.3
Alcoholic Beverage Excise Tax	107.0	109.5	109.5	0.0
Tobacco Products Wholesale Tax	21.8	22.4	22.4	0.0
Public Utilities Excise Tax	15.5	15.6	15.6	0.0
Subtotal, Major Taxes	**$14,643.4**	**$14,653.9**	**$14,577.3**	**-$76.6**
Misc. Taxes, Fees and Revenues				
Assessment on Property Sold Over $1 Million	129.0	114.8	118.2	3.4
Settlements	110.0	110.0	110.0	0.0
Federal Funds - Graduate Medical Education	0.0	0.0	0.0	0.0
Public Utility Taxes (State Retention)	118.0	121.7	121.7	0.0
Medicaid Uncomp. Care Reimbursement	413.8	453.6	453.6	0.0
Telephone Assessment	122.2	124.3	124.3	0.0
Hotel Occupancy Tax	105.0	100.4	100.4	0.0
Tobacco Settlement - MSA Payments	52.2	52.7	52.7	0.0
Federal Debt Offset Revenue	0.0	0.0	0.0	0.0
Interdepartmental Accounts	710.7	742.0	742.0	0.0
Other	1,124.6	1,129.2	1,129.2	0.0
Subtotal, Misc. Revenues	**$2,885.5**	**$2,948.6**	**$2,952.1**	**$3.4**
Interfund Transfers				
State Lottery Fund	1,000.0	965.0	965.0	0.0
Unclaimed Personal Property Trust Fund	174.1	174.1	174.1	0.0
State Disability Benefit Fund	38.7	38.8	38.8	0.0
Enterprise Zone Assistance Fund	80.5	83.8	83.8	0.0
Other	201.1	203.8	203.8	0.0
Subtotal, Interfund Transfers	**$1,494.4**	**$1,465.5**	**$1,465.5**	**$0.0**
TOTAL GENERAL FUND	**$19,023.2**	**$19,068.0**	**$18,994.8**	**-$73.2**
Property Tax Relief Fund (Income Tax)	**$13,930.0**	**$13,758.0**	**$13,758.0**	**$0.0**
PTRF Transfer from GF (Sales Tax)	***$710.1***	***$728.0***	***$728.0***	***$0.0***
Casino Revenue Fund (CRF)	**$204.2**	**$203.2**	**$203.2**	**$0.0**
CRF Taxes	$194.2	$193.6	$193.6	$0.0
CRF Other	$10.0	$9.5	$9.5	$0.0
Casino Control Fund	**$55.2**	**$42.9**	**$42.9**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**$0.7**	**$0.7**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$33,923.4**	**$33,800.8**	**$33,727.6**	**-$73.2**

Detailed Fiscal Year 2017 Revenue Estimates

Millions of $

Revenue Source	February 2016 Gov's Budget	GBM % Change	April 2016 OLS	OLS % Change	Diff: OLS - Executive
Major Taxes:					
Sales Tax, Total	**$9,050.3**	**3.2%**	**$9,050.3**	**3.7%**	**$0.0**
Sales Tax, Base	*9,597.4*	3.0%	*9,597.4*	3.5%	*0.0*
Dedicated Transfer to PTRF	*-727.4*		*-727.4*		
Sales Tax, Energy	*180.3*	12.7%	*180.3*	12.7%	*0.0*
Corporation Business Tax, Total	**$2,358.0**	**0.0%**	**$2,202.0**	**-4.3%**	**-$156.0**
Corporation Business Tax, Base	*2,336.0*	0.0%	*2,180.0*	-4.4%	*-156.0*
Corporation Business Tax, Energy	*22.0*	0.0%	*22.0*	0.0%	*0.0*
Inheritance Taxes	848.5	2.5%	900.0	4.7%	51.5
Motor Fuels Tax	545.6	-2.0%	555.0	1.8%	9.5
Insurance Premiums Tax	688.7	3.0%	688.7	3.0%	0.0
Realty Transfer Fee	330.4	6.9%	338.4	8.5%	8.0
Motor Vehicle Fees	515.6	7.6%	515.6	7.6%	0.0
Cigarette Tax	126.5	-22.7%	162.0	-9.5%	35.5
Petroleum Products Gross Receipts Tax	218.1	0.0%	218.1	1.4%	0.0
Corp. Business Tax - Banks and Financial	155.3	0.0%	140.0	0.0%	-15.3
Alcoholic Beverage Excise Tax	110.8	1.3%	110.8	1.3%	0.0
Tobacco Products Wholesale Tax	22.4	0.0%	22.4	0.0%	0.0
Public Utilities Excise Tax	15.6	0.0%	15.6	0.0%	0.0
Subtotal, Major Taxes	**$14,985.7**	**2.3%**	**$14,918.8**	**2.3%**	**-$66.9**
Misc. Taxes, Fees and Revenues					
Assessment on Property Sold Over $1 Million	124.5	8.5%	127.1	7.5%	2.6
Settlements	0.0	-100.0%	0.0	-100.0%	0.0
Federal Funds - Graduate Medical Education	126.0		126.0		0.0
Public Utility Taxes (State Retention)	121.7	0.0%	121.7	0.0%	0.0
Medicaid Uncomp. Care Reimbursement	386.8	-14.7%	386.8	-14.7%	0.0
Telephone Assessment	124.3	0.0%	124.3	0.0%	0.0
Hotel Occupancy Tax	105.5	5.1%	105.5	5.1%	0.0
Tobacco Settlement - MSA Payments	0.0	-100.0%	0.0	-100.0%	0.0
Federal Debt Offset Revenue	38.0		38.0		0.0
Interdepartmental Accounts	798.7	7.6%	798.7	7.6%	0.0
Other	1,141.9	1.1%	1,141.9	1.1%	0.0
Subtotal, Misc. Revenues	**$2,967.4**	**0.6%**	**$2,970.0**	**0.6%**	**$2.6**
Interfund Transfers					
State Lottery Fund	965.0	0.0%	965.0	0.0%	0.0
Unclaimed Personal Property Trust Fund	172.0	-1.2%	172.0	-1.2%	0.0
State Disability Benefit Fund	38.8	0.0%	38.8	0.0%	0.0
Enterprise Zone Assistance Fund	78.6	-6.3%	78.6	-6.3%	0.0
Other	199.8	-2.0%	199.8	-2.0%	0.0
Subtotal, Interfund Transfers	**$1,454.1**	**-0.8%**	**$1,454.1**	**-0.8%**	**$0.0**
TOTAL GENERAL FUND	**$19,407.2**	**1.8%**	**$19,342.9**	**1.8%**	**-$64.3**
Property Tax Relief Fund (Income Tax)	**$14,424.6**	**4.8%**	**$14,400.0**	**4.7%**	**-$24.6**
PTRF Transfer from GF (Sales Tax)	***$749.5***		***$749.5***		
Casino Revenue Fund (CRF)	**$199.9**	**-1.6%**	**$199.9**	**-1.6%**	**$0.0**
CRF Taxes	$190.2	-1.8%	$190.2	-1.8%	$0.0
CRF Other	$9.8	2.3%	$9.8	2.3%	$0.0
Casino Control Fund	**$50.3**	**17.2%**	**$50.3**	**17.2%**	**$0.0**
Gubernatorial Elections Fund	**$0.7**	**0.0%**	**$0.7**	**0.0%**	**$0.0**
GRAND TOTAL, ALL FUNDS	**$34,832.2**	**3.1%**	**$34,743.3**	**3.0%**	**-$88.9**

Revenue from Taxes on Energy and Utility Services

Energy utilities are subject to the corporation business tax (CBT) and collect and remit sales tax on their energy sales. Telecommunications utilities are subject to the CBT, while other utilities are taxed on the basis of their gross receipts. The revenues are divided into two categories: municipal use, which are "off budget" and State use, which are "on budget."

Figure A displays public utility revenues from FY 1991 through FY 2017. Collections through FY 1997 were under the old public utility tax system. Since FY 1998, taxes have been collected under the current law. **Figures B through E** display the actual and anticipated revenues from FY 2014 through FY 2017 in greater detail.

From a budgeting perspective, the municipal use tax revenues are credited to the Energy Tax Receipts Property Tax Relief Fund (ETR Fund), and allocated to municipalities under a statutory formula. These amounts, considered "off-budget," are not included in either the anticipated Schedule 1 revenues or the amount of State aid appropriated in the annual appropriations act. This amount has been held at $788.5 million by annual budget language since FY 2005.

After allocation of $788.5 million to the ETR Fund, the remaining revenues come "on-budget" for State use in the General Fund. Some of this on-budget State use portion was the Transitional Energy Facility Assessment (TEFA), which was originally scheduled to end in FY 2002. However, TEFA was extended several times and ran through FY 2013.

The portion of energy revenue from the CBT and the sales tax not allocated to the ETR Fund has varied over time, rising from $72.2 million in FY 2005 to a peak of $590.7 million in FY 2008, but slipping back to $149.2 million by FY 2012. Total State use "on-budget" collections from all energy and utility sources are estimated at $319.3 million in FY 2016 and $339.5 million in FY 2017.

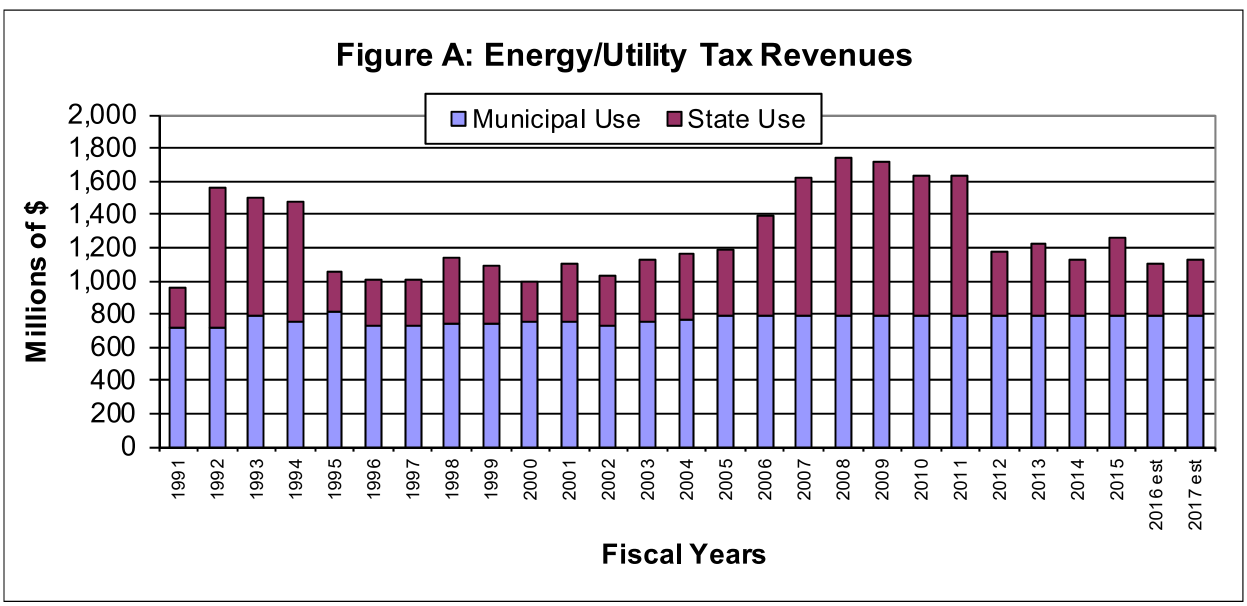


Figure B

Actual Energy/Utility Tax Revenue Fiscal Year 2014

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$188.4	$766.5	$954.9
Corporation Business Tax	$12.0	$22.0	$34.0
Transitional Energy Facilities Assessment (TEFA)	$4.5		$4.5
Franchise and Gross Receipts Tax Water and Sewer Utilities	$117.2		$117.2
Public Utility Excise Tax Water and Sewer Utilities	$15.0		$15.0
Total	**$337.1**	**$788.5**	**$1,125.6**

Source: Department of Treasury, March 2015.

Figure C

Actual Energy/Utility Tax Revenue Fiscal Year 2015

Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$248.8	$719.2	$968.0
Corporation Business Tax	$83.7	$69.3	$153.1
Transitional Energy Facilities Assessment (TEFA)	$1.2		$1.2
Franchise and Gross Receipts Tax Water and Sewer Utilities	$120.9		$120.9
Public Utility Excise Tax Water and Sewer Utilities	$15.6		$15.6
Total	**$470.3**	**$788.5**	**$1,258.8**

Source: Department of Treasury, March 2016.

Figure D
Anticipated Energy/Utility Tax Revenue Fiscal Year 2016
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$160.0	$753.5	$913.5
Corporation Business Tax	$22.0	$35.0	$57.0
Transitional Energy Facilities Assessment (TEFA)	$0.0		$0.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$121.7		$121.7
Public Utility Excise Tax Water and Sewer Utilities	$15.6		$15.6
Total	**$319.3**	**$788.5**	**$1,107.8**

Source: Department of Treasury, March 2016.

Figure E
Anticipated Energy/Utility Tax Revenue Fiscal Year 2017
Millions of $

Revenue Source	On-Budget (State Use)	Off-Budget (Municipal Use)	Total
Sales and Use Tax	$180.3	$753.5	$933.8
Corporation Business Tax	$22.0	$35.0	$57.0
Transitional Energy Facilities Assessment (TEFA)	$0.0		$0.0
Franchise and Gross Receipts Tax Water and Sewer Utilities	$121.7		$121.7
Public Utility Excise Tax Water and Sewer Utilities	$15.6		$15.6
Total	**$339.5**	**$788.5**	**$1,128.0**

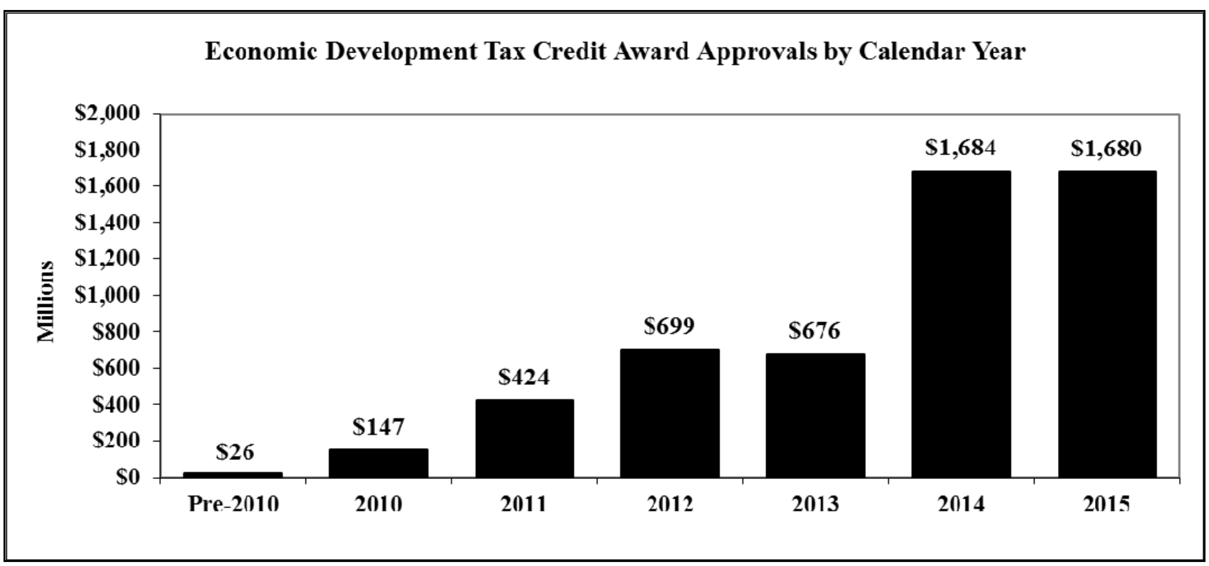
Source: Department of Treasury, March 2016.

Economic Development Tax Credit Awards

State tax collections are beginning to reflect the delayed effects of the recent escalation of economic development tax credit approvals. According to the Division of Taxation's "Fiscal Year 2017 State of New Jersey Tax Expenditure Report," the division expects taxpayers to increase their use of economic development tax credits against corporation business tax (CBT) liabilities from $111.4 million in FY 2015 to $113.7 million in FY 2016 and $454.2 million in FY 2017. The growing tax credit use depresses CBT collections and, given its scale, is rapidly becoming a relevant factor in CBT revenue projections.

In terms of process, a tax credit applicant must clear two hurdles before the Economic Development Authority (EDA) authorizes the applicant to use an economic development tax credit to offset tax liabilities. First, before work begins on a project, the EDA board must approve the tax credit application. In so doing, the board also imposes conditions on the venture. Second, upon project completion, the EDA ascertains that the applicant complied with its project conditions and, if so, finalizes the tax credit award for taxpayer use.

The graph below depicts the acceleration since calendar year 2010 of EDA economic development tax credit application approvals. Before then the EDA had only authorized a cumulative $26.4 million in economic development tax credit applications. But in calendar year 2010 it approved $146.9 million in such applications, while calendar year 2014 and 2015 approvals stood at $1.7 billion each. In sum, the EDA sanctioned some $5.3 billion in economic development tax credit applications through the end of 2015, predominantly reflecting the enactment of "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, which established new tax credit programs and expanded existing ones.



The EDA operated only one economic development tax credit program prior to 2010. Under the Business Retention and Relocation Assistance Grant (BRRAG) tax credit program, it approved $26.4 million in tax credits between 2005 and 2009. Economic development tax credit approvals began to take off in 2010 with the implementation of the Urban Transit Hub Tax Credit (UTHTC)

Program. In 2011, BRRAG tax credit approvals temporarily increased following substantial revisions to the statutory program. In 2012, the Grow New Jersey (GROW NJ) Assistance Program commenced operations. "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, then closed the BRRAG and UTHTC programs to new applicants, substantially revised the GROW NJ tax credit program, and created the Economic Redevelopment and Growth (ERG) tax credit program for residential redevelopment projects. The revised GROW NJ tax credit program accounted for most of the jump in economic development tax credit approvals in 2014. Subsequently, P.L.2014, c.63 established the Public Infrastructure Project Tax Credit (PIPTC) Program for redevelopers that donate, as part of a redevelopment project, certain public infrastructure to a governmental entity.

Economic Development Tax Credit Award Approvals by Calendar Year (in $ Millions)

Program	Pre-2010	2010	2011	2012	2013	2014	2015	TOTAL
BRRAG (Legacy)	$26.4	$2.2	$86.9	$9.4	$0.2	-	-	**$125.1**
UTHTC (Legacy)	-	$144.7	$337.1	$412.8	$342.6	-	-	**$1,237.2**
GrowNJ (Legacy)	-	-	-	$276.7	$253.1	-	-	**$529.7**
GrowNJ	-	-	-	-	$80.2	$1,527.6	$1,447.1	**$3,054.8**
ERG	-	-	-	-	-	$156.0	$218.3	**$374.3**
PIPTC	-	-	-	-	-	-	$15.0	**$15.0**
TOTALS	**$26.4**	**$146.9**	**$424.0**	**$698.8**	**$676.1**	**$1,683.6**	**$1,680.4**	**$5,336.1**

As the approvals gradually turn into finalized tax credit awards, they will weigh more heavily on State tax collections in the coming years. But the $5.3 billion in approved tax credits may overstate final tax credit awards. This is so because the EDA approves projects for tax credits based on project specifications that applicants present before work begins on the projects. But the EDA does not finalize credit awards for taxpayer use until it has verified a project's specifications after project completion. It is therefore possible for applicants to receive less than the amount for which they were approved if realized projects fall short of tax credit agreement requirements. Also, approved credits may never turn into actual credits if realized projects fail to meet minimum program requirements or if applicants never carry out the projects for which they received tax credit approvals. As of January 5, 2016, the EDA has finalized some $430.7 million of the $5.3 billion in approved tax credits.

The timing of taxpayers' eventual tax credit use is also uncertain, given that the EDA's final tax credit authorizations are conditional upon project completion. But taxpayers may only use their finalized tax credit awards in annual installments over, depending on the specific program, up to 20 years. Therefore, the $5.3 billion in approved tax credit awards will not lower State tax collections all at once but will do so dispersed over more than two decades.

In general, this background paper focuses on the nominal dollar value of approved tax credit applications. It is acknowledged, however, that the tax credits' direct revenue loss may potentially be offset, in whole or in part, by indeterminate indirect tax collections that might accrue from additional economic activity that the tax credits may directly catalyze.

Lastly, this analysis considers only economic development tax credit programs. It leaves aside incentive awards in the form of grant payments whose disbursement is subject to annual appropriations: the ERG grant program for commercial redevelopment projects and the Business Employment Incentive Program (BEIP). But grant awards could at a later date turn into tax credits. For example, P.L.2015, c.194 allows BEIP grant recipients to voluntarily convert their outstanding grant payments into refundable tax credits during a 180-day window starting on January 11, 2016. Subject to the law's multi-year credit payment schedule, BEIP tax credits will be authorized for taxpayer use starting in FY 2017. In its reply to EDA Discussion Point #7 in the OLS FY 2015-2016 Department of the Treasury Budget Analysis, the EDA related that future BEIP grant payment obligations through FY 2030 may total $1.27 billion. Those grant obligations may therefore be converted into $1.27 billion in tax credits. The "Fiscal Year 2017 State of New Jersey Tax Expenditure Report" includes a $160.1 million estimate of the FY 2017 CBT revenue loss from BEIP grant payment conversions to tax credits.

Description of Economic Development Tax Credit Programs

Six programs comprise the economic development tax credit approval data.

BRRAG (Legacy): P.L.2004, c.65 established the original Business Retention and Relocation Assistance Grant (BRRAG) tax credit program. Following several changes, "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, closed the program to new applicants effective on September 18, 2013, but honored any approved but not yet used tax credit award. Since inception, the EDA executed BRRAG agreements totaling $125.1 million in tax credits for 85 projects representing an estimated $2.08 billion in capital investments and 31,654 in retained jobs. In reply to EDA Discussion Point #8 in the OLS FY 2015-2016 Department of the Treasury Budget Analysis, the EDA shared that taxpayers were still scheduled to use $70.1 million in BRRAG tax credits from 2015 through 2020. The EDA lists all BRRAG agreements at: http://www.njeda.com/pdfs/reports/BRRAG_Activity.aspx.

BRRAG's latest permutation had a $20 million cap on the total dollar value of tax credits that taxpayers may apply against tax liabilities in a given tax period with a requirement that credits could only be used in the tax periods for which they were issued. Tax credits were available under the corporation business and insurance premiums taxes to businesses that relocated operations within New Jersey and retained jobs or that maintained jobs at a current location and made a qualified capital investment. The per-employee tax credit ranged from $1,500 to $9,000, depending on the number of full-time positions retained. Businesses earned a tax credit bonus of 50 percent of the base amount if they relocated at least 2,000 jobs from a location in New Jersey into a designated urban area. They could earn another 50 percent bonus if their capital investment was at least twice the amount of tax credits granted prior to the application of a bonus. In addition to the receipt of the tax credit being a material factor in the business' decision to retain full-time positions in New Jersey, an applicant had to demonstrate that the tax credit would yield a net fiscal benefit to the State. Tax credit awards were only certified for use upon project completion.

UTHTC (Legacy): P.L.2007, c.346 established the original Urban Transit Hub Tax Credit (UTHTC) program. Applicants first qualified for tax credit awards in 2010. Following several program changes, "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, closed the program to new applicants effective on September 18, 2013, but honors any approved but not yet used tax credit awards. Since inception, the EDA executed UTHTC agreements totaling $1.24 billion in tax credits for 26 projects representing an estimated $3.36 billion in capital investments and 3,693 in new jobs. The EDA lists all UTHTC agreements at: http://www.njeda.com/pdfs/reports/HUB_Activity.aspx.

Under the UTHTC program the EDA awarded tax credits to taxpayers who invested at least $50 million in real property situated in urban transit hubs. Subject to certain qualifying criteria, capital investments in business facilities that were to house at least 250 full-time positions could earn tax credits of 100 percent of the capital investment if at least 200 of the full-time positions were new to the State or of 80 percent of the investment if fewer than 200 of the full-time positions were new to the State. Residential investments, in turn, could earn tax credits of up to 35 percent of the investment and mixed use projects either of up to 35 percent for the entire investment or of up to 35 percent for the project's residential component if it represented at least a $17.5 million capital investment and of up to 100 percent for the project's business facility component if it represented at least a $17.5 million capital investment. Taxpayers receive their finalized tax credit awards in ten equal annual installments beginning after project completion. Urban transit hubs were the area within a one-half mile radius around a rail or light rail station in Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton, with the Camden urban transit hub covering the area within a one-mile radius around a rail or light rail station. In addition, there was an urban transit hub in the area within a one-mile radius of a rail or light rail station that was subject to a Choice Neighborhoods Transformation Plan. (The only New Jersey Choice Neighborhood was in Jersey City at the McGinley Square – Montgomery Corridor.) Acute care medical facilities and closed hospitals located within a one-mile radius of a rail or light rail station also qualified for tax credits.

GROW NJ (Legacy): P.L.2011, c.149 established the legacy Grow New Jersey (GROW NJ) Assistance Program. Applicants qualified for tax credit awards in 2012 and 2013 only. "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, closed the program to new applicants effective on September 18, 2013, but honors any approved but not yet used tax credit awards. The EDA executed legacy GROW NJ agreements totaling $530 million in tax credits for 18 projects representing an estimated $1.02 billion in capital investments, 2,523 in new jobs, and 6,685 in retained jobs. All agreements are listed at: http://www.njeda.com/pdfs/reports/Approved_GrowNJ_Legacy.aspx.

The legacy GROW NJ program provided tax credits to businesses for: a) making a minimum $20 million capital investment in a business facility in a qualified area and b) at that business facility either retaining at least 100 full-time positions with health benefits in New Jersey or creating at least 100 new full-time positions with health benefits in an industry the EDA identified as desirable to maintain or attract. Tax credits were awarded only if: a) the project yielded a positive fiscal net benefit to the State; b) the tax credit award was a material factor in the business decision to create or retain eligible full-time positions; and c) the project did not involve a point-of-final-purchase retail facility. The EDA could waive the material factor requirement for businesses that were required to respond to requests for proposal and to fulfill a contract with the federal government and that submitted a tax credit application by March 31, 2012. (Lockheed Martin Corporation was the only credit recipient meeting the latter requirement.)

The credit equaled ten annual installments of $5,000 each per full-time position created or retained as long as the number of new full-time jobs for which a business received a tax credit did not exceed the number of retained full-time jobs for which a business received a credit, unless the business qualified by creating at least 100 new full-time positions in an industry identified by the EDA as desirable for the State to attract or maintain. The annual credit amount increased to $8,000 if: a) the business operated in an industry the EDA identified as desirable to maintain or attract; b) the business was in proximity to a qualified area adjacent to or within walking distance or short-distance-shuttle service of a public transit facility; c) the full-time jobs created carried salaries in excess of New Jersey's average full-time salary; or d) the qualified area was negatively affected by the approval of a "qualified business facility" under the UTHTC program.

A qualified area was: a) a vacant commercial building having over 400,000 square feet of office, laboratory or industrial space available; b) an area designated for development within the Highlands, Meadowlands, and Pinelands; c) Fort Monmouth; and d) areas designated as Planning Area 1 (Metropolitan), Planning Area 2 (Suburban), or as an urban, regional or town designated center under the State Development and Redevelopment Plan.

GROW NJ: "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, instituted the reconfigured GROW NJ program with lower eligibility thresholds than the legacy program and an expanded geographic reach. P.L.2014, c.63 and P.L.2015, c.217 further adjusted the program's eligibility and award calculation parameters. Through February 9, 2016, the EDA signed GROW NJ agreements totaling $3.19 billion in tax credits under the program's Economic Opportunity Act configuration for 160 projects representing an estimated $2.7 billion in eligible capital investments, 21,266 in new jobs, and 19,461 in retained jobs. The EDA lists all agreements at: http://www.njeda.com/pdfs/reports/Approved_GrowNJ_EOA.aspx.

The GROW NJ tax credit program is intended to encourage job creation and retention. There is no cap on the aggregate dollar amount of tax credit awards, but the EDA may only consider applications submitted prior to July 1, 2019. GROW NJ tax credits are available for eligible projects located in certain geographic areas that meet two financial conditions. First, the financial assistance must be a material factor in a project's realization. Second, the project must yield fiscal benefits to the State over a period of up to 20 years (or up to 30 years in the case of a "mega project" or a project in one of five municipalities designated as a Garden State Growth Zone, or up to 35 years if a project is located in the city of Camden) that equal or exceed 110 percent of the tax credit amount (or 100 percent in the case of the city of Camden). Minimum capital investment and full-time employment requirements vary depending on project characteristics. The EDA may grant individual tax credits for up to ten years in amounts ranging from $500 to $15,000 per year for each job created, depending on project attributes. Credit amounts for retained jobs are generally the lesser of 50 percent of those for new jobs or one-tenth of the capital investment divided by the number of retained and new full-time jobs (except that certain limited projects earn job retention tax credits equal to the 100-percent rate of new full-time positions). Tax credit recipients must maintain the project and related employment for 1.5 times the period in which they receive tax credits. Tax credits are certified for taxpayer use only after project completion.

ERG: "The New Jersey Economic Opportunity Act of 2013," P.L.2013, c.161, newly established the Economic Redevelopment and Growth (ERG) tax credit program for residential redevelopment projects. Through February 9, 2016, the EDA signed ERG agreements totaling $518 million in tax credits for 32 projects representing an estimated $1.89 billion in capital investments. The EDA lists all approved agreements at: http://www.njeda.com/pdfs/reports/Approved_ERG_EOA.aspx. (The list also includes ERG grant awards for commercial redevelopment projects and tax credits awards under the Public Infrastructure Project Tax Credit Program.)

As amended by P.L.2015, c.69, P.L.2015, c.217, and P.L.2015, c.242, the $628 million ERG tax credit program applies to residential redevelopment and mixed use parking projects in eligible geographic areas and university infrastructure projects situated on the campus of Rutgers, the State University of New Jersey. Projects may receive ERG tax credits if the financial assistance closes a project financing gap that otherwise would be likely to prevent a project's realization. Residential redevelopment projects must also have minimum project costs ranging from $5.0 million to $17.5 million, depending on their specific location. No minimum capital investment threshold applies to mixed use parking projects and university infrastructure projects. The program does not require residential redevelopment, mixed use parking, and university infrastructure projects to generate fiscal benefits to the State in excess of the incentive amount. Tax credit awards are authorized for taxpayer use in up to ten annual installments following project completion. For residential redevelopment and university infrastructure projects, tax credit awards cannot exceed 30 percent of total project cost in conjunction with any municipal ERG award (or 40 percent in the five Garden State Growth Zone municipalities). For mixed use parking projects, tax credit awards equal up to 100 percent of a project's parking component cost and up to 40 percent of its non-parking component cost. The application deadline for all projects is July 1, 2016 and projects must obtain temporary certificates of occupancy by July 28, 2018, except that certain mixed use parking projects have until July 28, 2021 to secure a temporary certificate of occupancy.

Public Infrastructure Project Tax Credit Program: The "Economic Opportunity Act of 2014, Part 3," P.L.2014, c.63, inaugurated a tax incentive program for redevelopers that donate, as part of a redevelopment project, certain public infrastructure to a governmental entity. Through February 9, 2016, the EDA signed Public Infrastructure Project Tax Credit agreements totaling $15 million for three projects in Wood-Ridge, Bergen County, representing an estimated $70.5 million in capital investments. Along with ERG grant and tax credit awards, the EDA lists all agreements at: http://www.njeda.com/pdfs/reports/Approved_ERG_EOA.aspx.

As amended by P.L.2015, c.217, the Public Infrastructure Project Tax Credit Program makes $22 million in corporation business tax credits available to redevelopers that donate to a governmental entity, as part of a redevelopment project, public infrastructure with a minimum $5 million fair market value or open space without improvements with a minimum $1 million fair market value. Tax credits equal the cost of providing the public infrastructure, but not more than $5 million per project (or $2 million cumulatively for all projects appertaining to a brownfields redevelopment project comprising park and infrastructure development within an urban transit hub municipality). To qualify for the credit the public infrastructure must be: a) donated or built and donated after January 1, 2013; b) part of a new capital investment of more than $10 million in a building or complex of buildings, whose construction shall be completed by December 31, 2019; and c) part of a redevelopment project that has not received a GROW NJ tax credit or an ERG tax credit or grant. Incentive awards are available statewide and are not contingent upon the incentives being vital to the execution of a redevelopment project or its public infrastructure components. Moreover, redevelopment projects and their attendant public infrastructure components are not required to generate fiscal benefits to the State in excess of the cost of the tax incentive. Applicants may submit tax credit applications from October 24, 2014 to December 31, 2019.

State Taxes on Inheritance

State inheritance taxes have received increasing public attention in recent years. New Jersey is one of just two states (along with Maryland) imposing both a transfer inheritance and an estate tax. While the former taxes some beneficiaries for the receipt of assets from a New Jersey resident decedent (depending on the beneficiary's relationship to the decedent), the latter taxes certain estates of resident decedents.

The New Jersey estate tax exemption amount of $675,000 falls significantly below the federal estate tax exemption of $5.45 million, and is the lowest among the 15 states (**Figure 1**) imposing an estate tax.[1]

Figure 1 2016 Estate Tax Filing Exemptions	
State	**Exemption**
Delaware	$5,450,000
Hawaii	$5,450,000
Maine	$5,450,000
Illinois	$4,000,000
New York	$3,125,000
Vermont	$2,750,000
Washington	$2,054,000
Connecticut	$2,000,000
Maryland	$2,000,000
Minnesota	$1,600,000
Rhode Island	$1,600,000
Massachusetts	$1,000,000
Oregon	$1,000,000
District of Columbia	$1,000,000
New Jersey	$675,000

New Jersey's relatively low estate tax filing exemption is a legacy of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Pub.L.107-16, and the State Legislature's response to EGTRRA. Historically, the New Jersey estate tax was imposed in an amount equal to the credit allowed under federal estate tax law for any state inheritance taxes paid. Under this credit, states had been permitted to absorb (or "pick up") the value of any federal credit allowed for state inheritance taxes.

However, beginning in 2001, Congress began a phase-out of the federal credit mechanism. In reaction, the Legislature enacted 2002 legislation "decoupling" the State estate tax from the federal estate tax. This enactment tied the calculation of the State estate tax to the federal estate tax in effect at the end of calendar year 2001, and fixed the State's threshold at $675,000. Since 2001, the federal estate tax threshold has increased, and was set at $5.0 million in 2012[2] with annual indexing for inflation.

Inheritance tax collections, combining the transfer inheritance tax and estate tax revenues, are a significant contributor to the State budget.[3] With collections roughly evenly divided between the two taxes, The Executive projects total collections from the estate and transfer inheritance taxes to generate $828.1 million and $848.5 million in FY 2016 and FY 2017, respectively (**Figure 2**). Thus, total inheritance tax collections currently represent the fourth largest source of State tax revenues (behind only the Gross Income Tax, Sales Tax and Corporation Business Tax).

[1] Six states, including New Jersey, impose a transfer inheritance tax.
[2] The American Taxpayer Relief Act of 2012, Pub.L.112-240.
[3] Revenue collections from taxes on inheritance are included in reports of the State's "major taxes." When reporting these data, the Department of the Treasury uses the broad terminology "inheritance tax," or just as frequently "Transfer Inheritance tax," to reflect the combined collections of both the Transfer Inheritance tax and the New Jersey estate tax.

Figure 2
Combined Estate and Inheritance Tax Revenue, Totals and Annual Growth Rates ($ Millions)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16 (e)	FY17 (e)
Total	$610.8	$604.7	$698.7	$653.4	$581.6	$642.2	$641.9	$623.8	$684.4	$793.5	$828.1	$848.5
% Growth	17.30%	-1.01%	15.50%	-6.48%	-10.99%	10.41%	-0.05%	-2.81%	10.19%	4.01%	4.40%	2.50%

(e) is the Executive estimate from the FY 2017 Governor's Budget Message.

Given the importance of inheritance tax revenues to the State budget, it is notable that annual collections can be volatile and difficult to estimate, as the amount collected depends upon the number of residents who die in a particular year and the magnitude of their wealth. Data recently obtained from the Division of Taxation, however, provide some insight into the incidence of the tax relative to the number of deaths in the State and to the distribution, by net taxable estate, of revenues collected.

The tax filing data conveyed by the Division of Taxation and mortality statistics available from the New Jersey Department of Health (DOH) suggest that approximately 4.9 percent of deaths of New Jersey residents result in a New Jersey estate tax liability. This estimate is based on the actual number of taxable estate tax filings (3,467) for FY 2014 and the DOH's preliminary projection for the number of deaths (71,316) in 2014, the most recent year for which data are available for both statistics.

The number of estates filing under the transfer inheritance tax in FY 2014 was 4,849. (Although the transfer inheritance tax is imposed on beneficiaries, the estate of a decedent is responsible for the filing of the tax.) Thus, approximately 6.8 percent of deaths generated taxable liability under the transfer inheritance tax for one or more beneficiaries per filing. The greater number of filings under the transfer inheritance tax relative to the estate tax reflects the transfer inheritance tax's much lower exemptions amounts.[4]

Some estates file for both taxes, and payments under the transfer inheritance tax are creditable against estate tax liability. OLS estimates that approximately 10 percent of deaths of New Jersey residents results in any State inheritance tax liability. [5]

While the proportion (4.9 percent) of New Jersey estates subject to the New Jersey estate tax is small, a much smaller proportion is subject to the federal estate tax. At the current federal estate tax threshold, "Only the estates of the wealthiest 0.2 percent of Americans — roughly 2 out

[4] While transfers to immediate family are fully exempt from taxation, transfers to "Class C" beneficiaries (siblings and sons- and daughters-in law) are taxed at a rate of 11 to 16 percent, with the first $25,000 exempt, while transfers to "Class D" beneficiaries (nieces/nephews, cousins, non-relatives) are taxed at a rate of 15 to 16 percent with the first $5,000 exempt.

[5] The universe of estates having a liability under the estate tax (3,467) and the number of estates filing under the transfer inheritance tax but NOT having an estate tax liability can be calculated to derive an approximate number of annual unique tax filings under the two taxes. Specifically, of the 4,849 estates filing under the transfer inheritance tax, an estimated 3,736 are likely to have had NO liability under the estate tax based on the size of the taxable estate (net taxable assets of $675,000 or less). Thus, the total universe of unique taxable filings under *either tax* is estimated at 7,203 (or 3,467 + 3,736).

of every 1,000 people who die — owe any estate tax."[6] Indeed, if the New Jersey estate tax threshold were to increase to $2,600,000, the approximate average filing threshold in effect in the 15 states imposing an estate tax, the number of taxable estate filings in New Jersey would drop from roughly 3,000 returns per year currently to approximately 440 returns, or less than one percent of all NJ deaths annually.

Estate tax revenue data (**Figure 4**) suggest the New Jersey estate tax is relatively progressive. Of the 3,467 taxable estate tax filings in FY 2014, just 120 returns (or 3.5 percent of all taxable returns) with a net taxable estate of $5.0 million or more paid just over 38 percent of all estate tax revenues, with an average tax of $1.02 million. In contrast, net taxable estates between $675,000 and $1.0 million (41 percent of returns), yielded approximately 9.3 percent of total estate tax revenues, with an average levy of $21,154 per return for a total of $29.7 million from 1,405 estates filings. Moreover, the estimated effective tax rate for a $1.0 million estate with an approximate $33,000 tax liability is just 3.3 percent compared to an effective tax rate of 7.84 percent for a $5.0 million estate paying $392,000 in estate taxes.

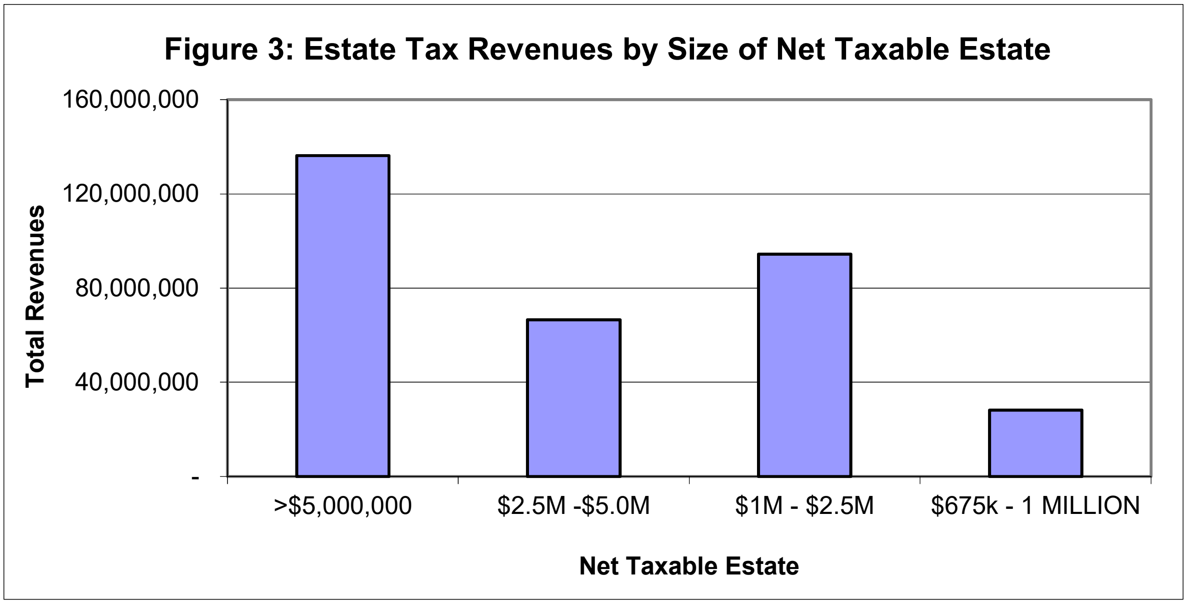


Figure 4 Estate Tax Collections – FY2014					
Net Taxable Estate	**# Returns**	**% All Returns**	**Total tax**	**% Tax Revenue**	**Average Tax**
$5,000,000 & Above	120	3.5%	$122,411,756	38.4%	$1,020,098
$2.5M -$5.0M	323	9.3%	$68,151,030	21.4%	$210,994
$1M - $2.5M	1,619	46.7%	$98,806,086	31.0%	$61,029
$675k - 1 MILLION	1,405	40.5%	$29,721,822	9.3%	$21,154
	3,467		$319,090,694		$92,037

[6] *Ten Facts You Should Know About the Federal Estate Tax*, Center for Budget and Policy Priorities, Updated March 23, 2015, http://www.cbpp.org/cms/index.cfm?fa=view&id=2655

As **Figures 3 and 5** illustrate, the revenue collection pattern for the estate and the transfer inheritance tax differ. While 55 percent of the revenue (or $182.5 million out of the total $329.9 million) realized under the transfer inheritance tax comes from net taxable estates of $1.0 million or more, the overwhelming number of taxable filings (88 percent) come from estates with net taxable assets at or below $1.0 million. Although immediate family members (spouses, domestic partners, grandparents and children) are exempt from the imposition of this tax, more distant relatives as well as non-relatives pay relatively high tax rates. Depending on the amount transferred and the relationship of the beneficiary to the decedent, rates under the transfer inheritance tax range from 11 percent to 16 percent with the effective tax rates being nearly identical to the actual statutory rates due to very low exemption amounts.

Figure 5: Transfer Inheritance Tax Revenues by Size of Net Taxable Estate

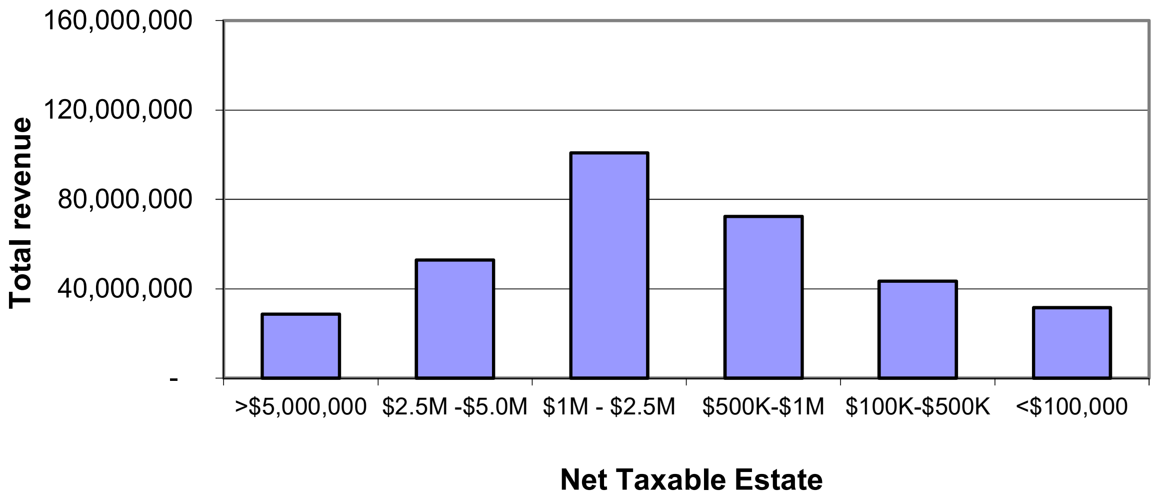


Figure 6
Transfer Inheritance Tax Collections – FY2014

Net Taxable Estate	# Returns	% All Returns	Total Tax Revenue	% Total Revenue	Average Tax
$5,000,000 & Above	21	0.4%	$28,600,335	8.7%	$1,361,921
$2.5M -$5.0M	103	2.1%	$52,943,090	16.0%	$514,011
$1M - $2.5M	479	9.9%	$100,907,138	30.6%	$210,662
$500K-$1M	760	15.7%	$72,483,537	22.0%	$95,373
$250K-$500K	896	18.5%	$43,392,471	13.2%	$48,429
Less Than $250,000	2,590	53.4%	$31,540,688	9.6%	$12,178
	4,849		$329,867,259		

New Jersey Gross Income Tax: Tax Rates and Income Distributions from 1997 to 2012

The New Jersey gross income tax (GIT) faced a number of significant changes during the period between 1997 and 2012. Marginal tax rates changed twice, once permanently and once temporarily. Certain lower-income taxpayers were removed from the tax rolls. Two economic recessions hit the State, including the most severe downturn since the Great Depression of the 1930s. Overall, the concentration of income and income tax liability continued a long-term shift toward higher-income taxpayers.

CHANGES IN THE TAX RATES AND STRUCTURE

As the 1990s ended, the State was in the midst of a long period of national economic growth and Governor Christine Todd Whitman's multi-year phase-down of the GIT's marginal tax rates (Tax Years 1994, 1995, and 1996) was complete. In 1999, Governor Whitman and the Legislature enacted a three year phased-in increase in the minimum GIT filing threshold. Between 1999 and 2001 the minimum GIT threshold increased from $7,500 to $20,000 for married filing jointly and head of household returns; from $3,750 to $10,000 for married filing separately; and from $7,500 to $10,000 for single returns, estates and trusts (N.J.S.A. 54A:2-4 and 54A:8-3.1). These minimum GIT filing thresholds have remained in place since 2001.

It is worth noting that the minimum GIT filing threshold increase to $20,000 (or $10,000) for certain taxpayers does not eliminate tax liability for all taxpayer income below the threshold. While taxpayers with total gross income *below* those thresholds do not owe income tax[7], most taxpayers with total gross income *above* those thresholds will still have a 1.4 percent marginal tax rate applied to their first $20,000 (as shown in Figure 1 on the next page).

An additional tax change impacting the GIT was the New Jersey Earned Income Tax Credit (NJ EITC), enacted in 2000 (N.J.S.A. 54A:4-7). Based on a federal program, the NJ EITC provides families with a refundable income tax credit equal to a percentage of the value of the similar federal credit. The New Jersey credit percentage began at 10 percent of the federal amount in Tax Year 2000, phasing up to 15 percent in 2001, 17.5 percent in 2002, and 20 percent in 2003. Subsequent enactments[8] increased the NJ EITC percentage to 22.5 percent of the federal credit in 2008 and 25 percent in 2009, while the credit was reduced back to 20 percent in 2010.

In 2004, Governor James E. McGreevey and the Legislature enacted a new marginal tax rate on income above $500,000 (N.J.S.A. 54A:2-1). Since 1996, the top marginal tax rate of 6.37 percent had applied to income above $150,000 for married filing joint, surviving spouse, and head-of-household returns, and to income above $75,000 for married filing separate and single returns. The statutory change in 2004 created a new 8.97 percent marginal tax rate for income above $500,000, regardless of filing status. This change became popularly known as the "millionaires tax," although it also applied to taxpayers with less than $1.0 million annual income.

[7] An overpayment is refundable, such as if tax was paid through employee wage withholding.
[8] Outside the scope of this report, the law was further amended in 2015 to increase the NJ EITC to 30 percent of the federal credit for Tax Year 2015 and thereafter.

The marginal rate change enacted in 2004 remains part of the permanent tax law. However, a one-time set of tax changes was enacted for Tax Year 2009. The temporary rate increases of 2009 (N.J.S.A. 54A:2-1a) included an 8.0 percent marginal rate for income between $400,000 and $500,000, a 10.25 percent marginal rate for income between $500,000 and $1,000,000, and a 10.75 percent rate for income in excess of $1,000,000. The law also temporarily limited the property tax deduction to taxpayers with income of $250,000 or less and made New Jersey lottery winnings in excess of $10,000 permanently subject to the GIT.

Figure 1, below, displays the recent history of New Jersey's marginal income tax rate structure, including the permanent and temporary marginal tax rate changes enacted in 2004 and 2009. In 2010 and thereafter, the marginal rates returned to the structure in place prior to 2009.

Figure 1

New Jersey Gross Income Tax
Marginal Rates

Joint Filers

Taxable Income	1996 to 2003	2004 to 2008	2009 Only	2010 and After
Up to $20,000	1.40%	1.40%	1.40%	1.40%
$20,001 to $50,000	1.75%	1.75%	1.75%	1.75%
$50,001 to $70,000	2.45%	2.45%	2.45%	2.45%
$70,001 to $80,000	3.50%	3.50%	3.50%	3.50%
$80,001 to $150,000	5.53%	5.53%	5.53%	5.53%
$150,001 to $400,000	6.37%	6.37%	6.37%	6.37%
$400,001 to $500,000	6.37%	6.37%	8.00%	6.37%
$500,001 to $1,000,000	6.37%	8.97%	10.25%	8.97%
Over $1,000,000	6.37%	8.97%	10.75%	8.97%

Single/Separate Filers

Taxable Income	1996 to 2003	2004 to 2008	2009 Only	2010 and After
Up to $20,000	1.40%	1.40%	1.40%	1.40%
$20,001 to $35,000	1.75%	1.75%	1.75%	1.75%
$35,001 to $40,000	3.50%	3.50%	3.50%	3.50%
$40,001 to $75,000	5.53%	5.53%	5.53%	5.53%
$75,001 to $400,000	6.37%	6.37%	6.37%	6.37%
$400,001 to $500,000	6.37%	6.37%	8.00%	6.37%
$500,001 to $1,000,000	6.37%	8.97%	10.25%	8.97%
Over $1,000,000	6.37%	8.97%	10.75%	8.97%

NUMBER OF RETURNS BETWEEN 1997 AND 2012

Figures 2 and 3 below display the number of tax returns between 1997 and 2012 in a series of broad income brackets. Generally, the number of filers with income below $50,000 has declined over time, while the number of filers above $100,000 income has grown significantly. The impact of the increased filing threshold is also visible. The number of low-income returns dropped sharply, from 1,798,883 in 1998 to 1,368,800 in 2001.

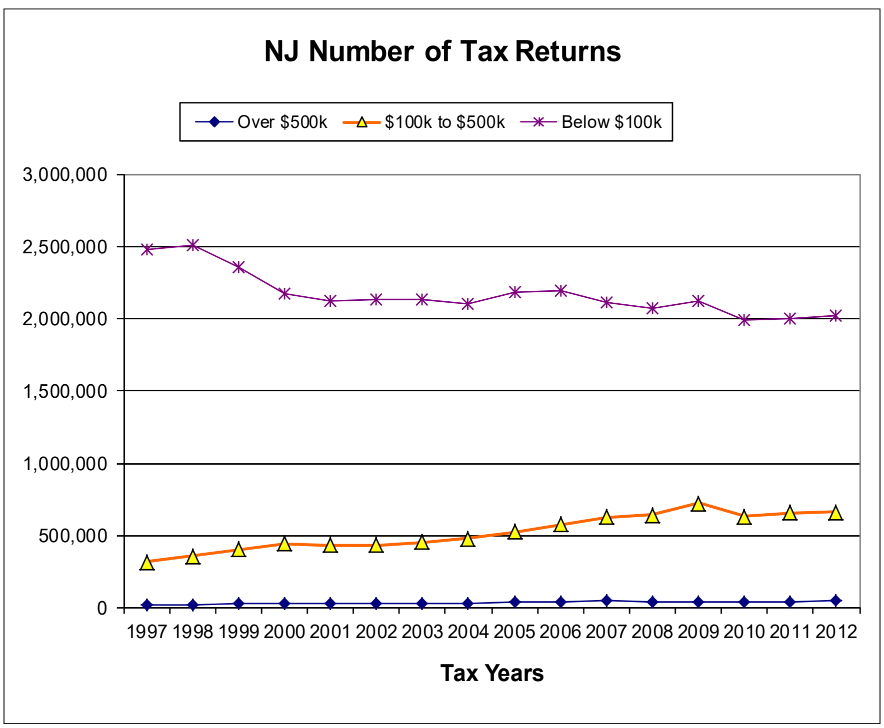
Figure 2

NJ Number of Taxable Returns: 1997 to 2012

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k	Total
1997	6,860	13,255	314,775	676,994	1,799,988	2,811,872
1998	8,239	15,419	359,027	705,167	1,798,883	2,886,735
1999	9,589	17,319	400,880	717,784	1,640,675	2,786,247
2000	12,365	19,918	443,806	719,848	1,451,642	2,647,579
2001	9,900	18,100	434,900	752,700	1,368,800	2,584,400
2002	8,300	17,200	433,900	730,700	1,407,000	2,597,100
2003	8,785	18,240	454,080	734,300	1,403,100	2,618,505
2004	11,600	21,700	478,200	718,100	1,381,200	2,610,800
2005	13,300	24,300	525,900	729,100	1,452,000	2,744,600
2006	15,500	27,700	577,400	741,500	1,449,100	2,811,200
2007	17,864	30,658	624,929	740,582	1,372,095	2,786,128
2008	15,576	28,776	639,740	737,304	1,332,444	2,753,840
2009	12,208	26,289	723,887	772,480	1,353,479	2,888,343
2010	13,854	27,671	634,056	722,765	1,267,354	2,665,700
2011	14,653	29,623	659,623	721,673	1,281,259	2,706,831
2012	17,143	31,931	664,809	715,720	1,300,684	2,730,287
Total Change	*149.90%*	*140.90%*	*111.20%*	*5.72%*	*-27.74%*	*-2.90%*
Annual Average	*6.30%*	*6.04%*	*5.11%*	*0.37%*	*-2.14%*	*-0.20%*

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

Figure 3



Over this period, the number of GIT returns between $100,000-$500,000 income averaged 5.11 percent growth per year. GIT returns between $500,000-$1,000,000 income grew annually by 6.04 percent on average, while returns for incomes over $1,000,000 rose annually by 6.30 percent on average. Figure 4, below, displays the annual numbers, in a bar chart, for all GIT returns with income greater than $500,000. (This cohort is difficult to view in Figure 3 due to its tight position along the bottom of the graph.)

Figure 4

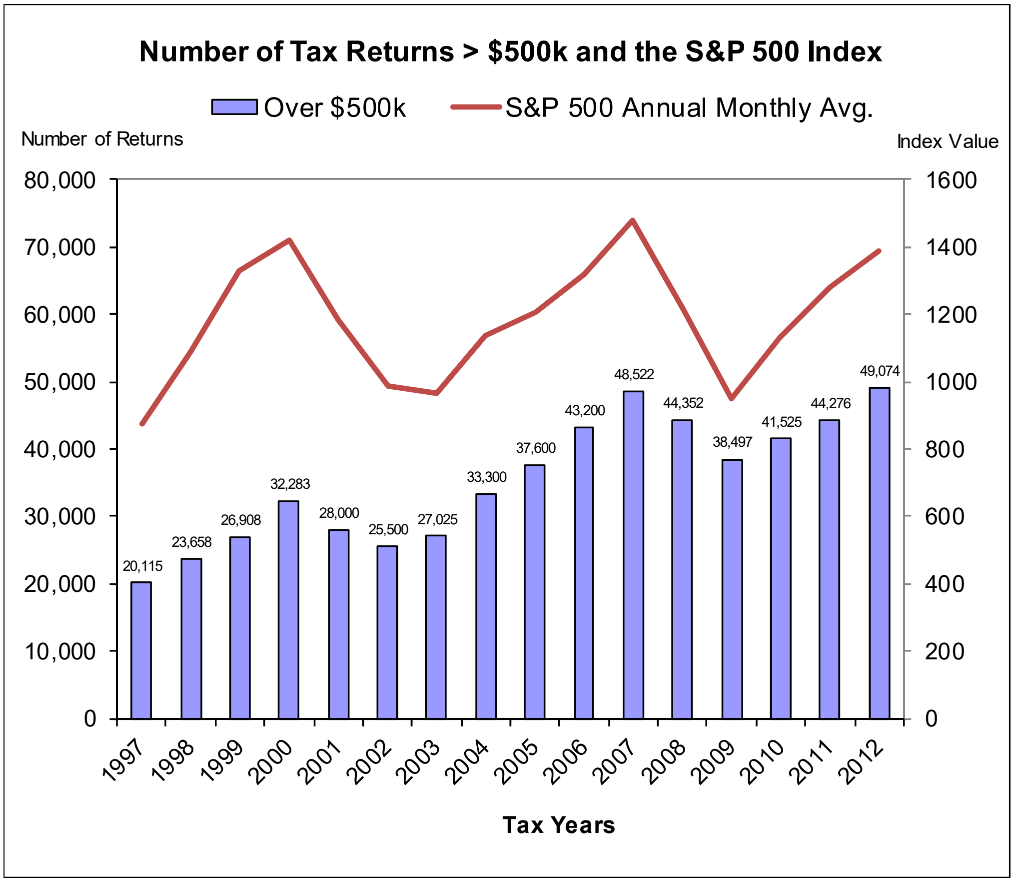


Figure 4 also displays the annual monthly average value for the Standard and Poors' 500 index. The pattern of change among higher-income GIT returns is strongly correlated with the fluctuating stock market. Also visible are the two economic recessions and the subsequent economic recoveries. The impact of the 2001 "dot-com" stock market crash and the subsequent recession in 2001 and 2002 is followed by a strong rebound through 2007. The fallout from the much deeper 2008 and 2009 Great Recession also appears with another drop in high-income returns, followed by the more recent recovery to a new historical peak by 2012. The tax rate increases during this period occurred in 2004 (permanent) and in 2009 (temporary). National economic factors and stock market performance strongly correlate to the number of higher-income returns.

GROSS INCOME BETWEEN 1997 AND 2012

Figures 5 and 6 display taxable gross income between 1997 and 2012. The patterns are similar to those demonstrated by the number of GIT returns. Generally, gross income for taxpayers with less than $100,000 annual income has held stable or declined slightly over time. Gross income for upper-income taxpayers has grown strongly, by at least 5.86 percent per year or more.

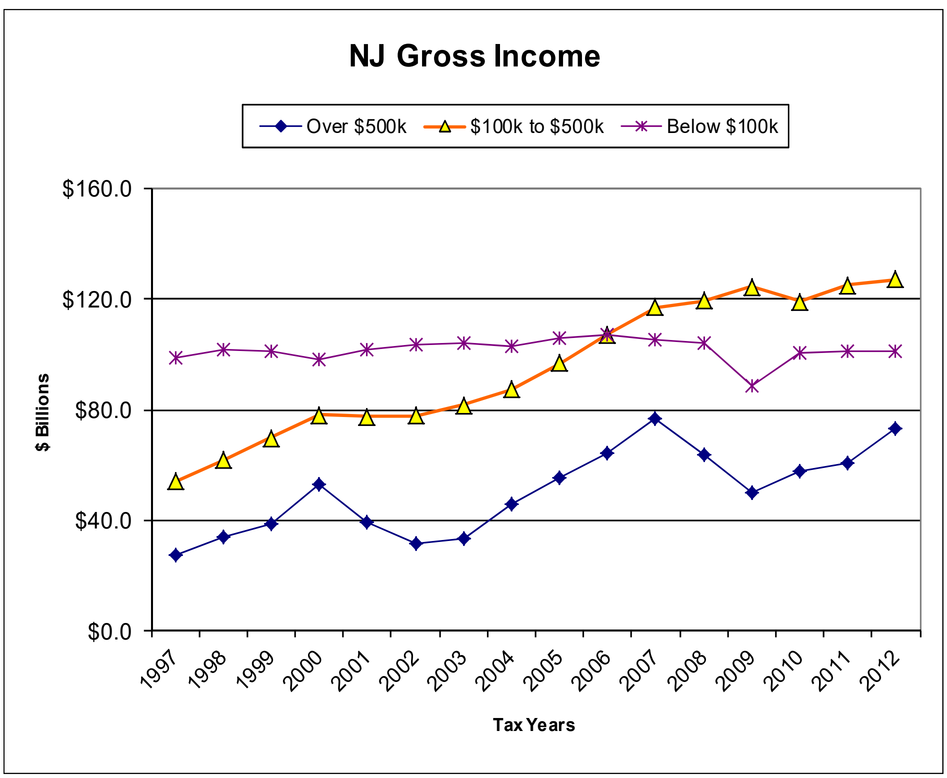
Figure 5

NJ Taxable Gross Income: 1997 to 2012
$ in Billions

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k	Total
1997	$18.2	$9.0	$54.1	$50.3	$48.5	$180.2
1998	$23.4	$10.6	$61.9	$52.7	$48.8	$197.3
1999	$27.1	$11.9	$69.8	$53.9	$47.3	$209.9
2000	$39.5	$13.7	$78.0	$54.3	$43.9	$229.4
2001	$27.1	$12.5	$77.6	$58.1	$43.8	$219.0
2002	$19.7	$11.9	$77.7	$57.5	$45.9	$212.8
2003	$20.6	$12.6	$81.6	$58.2	$46.1	$219.1
2004	$30.5	$15.1	$87.2	$57.3	$45.4	$235.5
2005	$38.5	$16.9	$96.8	$58.3	$47.6	$258.1
2006	$45.1	$19.2	$107.1	$59.4	$47.6	$278.5
2007	$55.6	$21.3	$116.9	$59.3	$45.9	$299.0
2008	$43.8	$20.0	$119.5	$59.1	$44.9	$287.4
2009	$32.0	$17.7	$124.5	$54.9	$33.6	$262.9
2010	$38.4	$19.2	$119.1	$58.2	$42.6	$277.4
2011	$39.9	$20.6	$125.1	$58.2	$42.9	$286.6
2012	$50.8	$22.4	$127.0	$57.7	$43.3	$301.3
Total Change	*179.36%*	*148.28%*	*134.99%*	*14.62%*	*-10.78%*	*67.23%*
Annual Average	*7.09%*	*6.25%*	*5.86%*	*0.91%*	*-0.76%*	*3.49%*

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

Figure 6



TAX PAYMENTS BETWEEN 1997 AND 2012

Tax payments over time are influenced by both changes in income and changes in tax policy. Figures 7 and 8 show the patterns in NJ net charged tax payments between 1997 and 2012. Payments from lower-income GIT returns have held steady over time, while payments from higher-income returns have grown strongly due both to rising incomes and to the permanent rate increase in 2004. Tax payments from GIT returns above $500,000 now significantly exceed those from returns below $100,000 annual income.

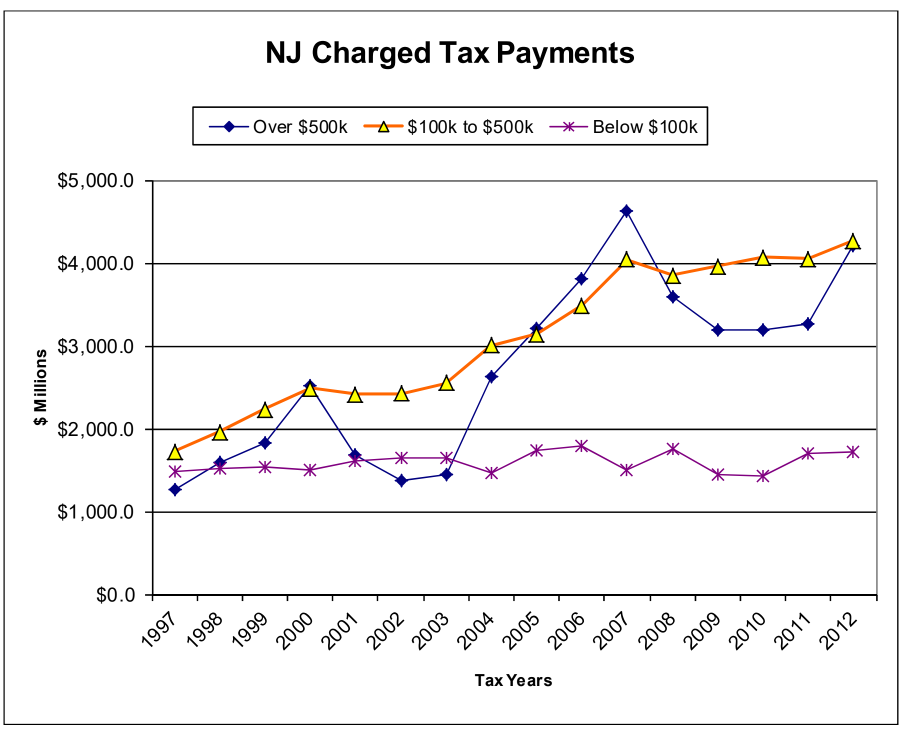
Figure 7

NJ Charged Tax Payments: 1997 to 2012
$ in Millions

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k	Total
1997	$878.2	$394.3	$1,726.7	$904.7	$585.1	$4,489.0
1998	$1,132.9	$458.8	$1,960.0	$941.7	$574.1	$5,067.6
1999	$1,311.9	$523.3	$2,231.4	$976.9	$562.8	$5,606.4
2000	$1,916.4	$597.5	$2,489.6	$993.6	$514.7	$6,511.9
2001	$1,167.3	$515.7	$2,418.5	$1,063.2	$545.4	$5,710.0
2002	$869.0	$504.3	$2,426.0	$1,064.3	$583.4	$5,447.0
2003	$915.8	$530.5	$2,553.9	$1,082.3	$560.3	$5,642.8
2004	$1,901.4	$729.1	$3,004.6	$1,014.8	$449.9	$7,099.8
2005	$2,402.8	$802.7	$3,140.3	$1,149.3	$597.0	$8,092.2
2006	$2,893.6	$911.6	$3,489.9	$1,188.1	$596.5	$9,079.7
2007	$3,605.1	$1,026.0	$4,043.3	$1,059.0	$435.0	$10,168.3
2008	$2,698.2	$902.0	$3,852.8	$1,201.3	$552.9	$9,207.1
2009	$2,290.6	$898.3	$3,960.3	$1,047.2	$398.5	$8,594.7
2010	$2,289.7	$905.5	$4,068.8	$1,039.7	$382.7	$8,686.4
2011	$2,334.2	$930.7	$4,050.1	$1,188.7	$515.4	$9,019.1
2012	$3,156.0	$1,058.1	$4,266.6	$1,200.5	$520.6	$10,201.8
Total Change	*259.38%*	*168.37%*	*147.09%*	*32.70%*	*-11.03%*	*127.26%*
Annual Average	*8.90%*	*6.80%*	*6.22%*	*1.90%*	*-0.78%*	*5.63%*

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

Figure 8



THE DISTRIBUTION OF RETURNS, INCOME, AND PAYMENTS

Figures 9, 10, and 11 display the percentage distribution of tax returns, gross income, and net charged tax payments within each year and how those distributions have changed over time. For example, in 1997 taxpayers with at least $1,000,000 in annual income accounted for 0.24 percent of all GIT returns, 10.1 percent of gross income, and 19.56 percent of tax payments. By 2012 this cohort over $1,000,000 accounted for 0.63 percent of GIT returns, 16.87 percent of gross income, and 30.94 percent of charged tax payments. As income and tax rates at the high end have increased, the GIT's dependence on high-income taxpayers has grown.

Figure 9

NJ Number of Taxable Returns Percentage Distribution: 1997 to 2012

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k
1997	0.24%	0.47%	11.19%	24.08%	64.01%
1998	0.29%	0.53%	12.44%	24.43%	62.32%
1999	0.34%	0.62%	14.39%	25.76%	58.88%
2000	0.47%	0.75%	16.76%	27.19%	54.83%
2001	0.38%	0.70%	16.83%	29.12%	52.96%
2002	0.32%	0.66%	16.71%	28.14%	54.18%
2003	0.34%	0.70%	17.34%	28.04%	53.58%
2004	0.44%	0.83%	18.32%	27.50%	52.90%
2005	0.48%	0.89%	19.16%	26.56%	52.90%
2006	0.55%	0.99%	20.54%	26.38%	51.55%
2007	0.64%	1.10%	22.43%	26.58%	49.25%
2008	0.57%	1.04%	23.23%	26.77%	48.38%
2009	0.42%	0.91%	25.06%	26.74%	46.86%
2010	0.52%	1.04%	23.79%	27.11%	47.54%
2011	0.54%	1.09%	24.37%	26.66%	47.33%
2012	0.63%	1.17%	24.35%	26.21%	47.64%

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

Figure 10

NJ Taxable Gross Income Percentage Distribution: 1997 to 2012

$ in Billions

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k
1997	10.10%	5.01%	30.01%	27.94%	26.94%
1998	11.85%	5.35%	31.37%	26.71%	24.71%
1999	12.89%	5.66%	33.26%	25.67%	22.52%
2000	17.23%	5.98%	34.00%	23.68%	19.11%
2001	12.36%	5.71%	35.44%	26.51%	19.99%
2002	9.27%	5.62%	36.50%	27.03%	21.58%
2003	9.39%	5.76%	37.25%	26.55%	21.03%
2004	12.96%	6.40%	37.04%	24.32%	19.28%
2005	14.92%	6.56%	37.50%	22.58%	18.44%
2006	16.21%	6.91%	38.45%	21.34%	17.10%
2007	18.58%	7.13%	39.11%	19.82%	15.36%
2008	15.25%	6.97%	41.59%	20.56%	15.64%
2009	12.19%	6.75%	47.38%	20.89%	12.80%
2010	13.82%	6.93%	42.92%	20.98%	15.35%
2011	13.93%	7.18%	43.64%	20.29%	14.96%
2012	16.87%	7.44%	42.17%	19.15%	14.37%

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

Figure 11

NJ Charged Tax Payments Percentage Distribution: 1997 to 2012

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k
1997	19.56%	8.78%	38.47%	20.15%	13.03%
1998	22.36%	9.05%	38.68%	18.58%	11.33%
1999	23.40%	9.33%	39.80%	17.43%	10.04%
2000	29.43%	9.18%	38.23%	15.26%	7.90%
2001	20.44%	9.03%	42.35%	18.62%	9.55%
2002	15.95%	9.26%	44.54%	19.54%	10.71%
2003	16.23%	9.40%	45.26%	19.18%	9.93%
2004	26.78%	10.27%	42.32%	14.29%	6.34%
2005	29.69%	9.92%	38.81%	14.20%	7.38%
2006	31.87%	10.04%	38.44%	13.09%	6.57%
2007	35.45%	10.09%	39.76%	10.42%	4.28%
2008	29.31%	9.80%	41.85%	13.05%	6.01%
2009	26.65%	10.45%	46.08%	12.18%	4.64%
2010	26.36%	10.42%	46.84%	11.97%	4.41%
2011	25.88%	10.32%	44.91%	13.18%	5.71%
2012	30.94%	10.37%	41.82%	11.77%	5.10%

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

In contrast, the GIT's dependence on lower-income taxpayers has declined. GIT returns with less than $50,000 annual income accounted for 64.01 percent of all returns, 26.94 percent of gross income, and 13.03 percent of tax payments in 1997. By 2012 this cohort accounted for 47.64 percent of GIT returns, 14.37 percent of gross income, and 5.10 percent of net charged tax payments. Taxpayers in the two displayed cohorts below $100,000 income accounted for a combined 33.18 percent of charged tax payments in 1997, *more* than the 28.34 percent accounted for by all taxpayers in the two cohorts above $500,000. By 2012, those taxpayers below $100,000 income accounted for only 16.87 percent of charged tax payments, *less than half* the proportion of 41.31 percent from the taxpayers above $500,000.

As the impact of the upper income cohort of taxpayers has grown, the impact of the bottom two-thirds to three-quarters of the tax paying population has declined. By way of illustration, the total amount of net charged tax payments from all taxpayers below $100,000 income in 2007 ($1.494 billion; Figure 7), the year before the Great Recession, was *less* than the 2-year drop subsequently experienced by the GIT during that 2008-2009 Recession ($1.573 billion). Due to the changing distribution of taxpayers and tax payments, the tax revenue impact of the Great Recession was as if all taxpayers with income under $100,000 had disappeared.

As noted previously in this report, the shift away from lower income taxpayers toward a greater dependence on higher-income taxpayers is a function of both tax policy, such as the exclusion of certain taxpayers through a higher filing threshold or via increased marginal tax rates, and also due to change in income. As incomes rise over time, through cost-of-living adjustments or other factors, taxpayers move into higher income tax brackets. Increased tax revenue due to taxpayer movement up the income tax scale is referred to as "bracket creep" and can also influence these long-term trends.

AVERAGE EFFECTIVE TAX RATES

Figure 12 displays the average effective tax rates from 1997 through 2012 by broad income categories. Average effective rates measure the overall, or average, impact of the many different marginal tax rates at various income levels. New Jersey's highly graduated rate structure produces significantly different effective tax rates for different income groups. For example, taxpayers with $50,000 annual income or less face average effective rates below 1.30 percent in most years, or 1.20 percent most recently in 2012. Meanwhile high-income taxpayers with greater than $1,000,000 annual income face much higher average effective rates, typically above 6.0 percent and most recently 6.21 percent in 2012.

Figure 12

NJ Average Effective Tax Rate: 1997 to 2012

Tax Year	Over $1.0 mil	$500k to $1 mil	$100k to $500k	$50k to $100k	Below $50k	Total
1997	4.83%	4.36%	3.19%	1.80%	1.21%	2.49%
1998	4.84%	4.35%	3.17%	1.79%	1.18%	2.57%
1999	4.85%	4.40%	3.20%	1.81%	1.19%	2.67%
2000	4.85%	4.36%	3.19%	1.83%	1.17%	2.84%
2001	4.31%	4.13%	3.12%	1.83%	1.25%	2.61%
2002	4.41%	4.22%	3.12%	1.85%	1.27%	2.56%
2003	4.45%	4.20%	3.13%	1.86%	1.22%	2.58%
2004	6.23%	4.84%	3.44%	1.77%	0.99%	3.01%
2005	6.24%	4.74%	3.24%	1.97%	1.25%	3.14%
2006	6.41%	4.74%	3.26%	2.00%	1.25%	3.26%
2007	6.49%	4.81%	3.46%	1.79%	0.95%	3.40%
2008	6.16%	4.51%	3.22%	2.03%	1.23%	3.20%
2009	7.15%	5.06%	3.18%	1.91%	1.18%	3.27%
2010	5.97%	4.71%	3.42%	1.79%	0.90%	3.13%
2011	5.85%	4.52%	3.24%	2.04%	1.20%	3.15%
2012	6.21%	4.72%	3.36%	2.08%	1.20%	3.39%

Sources: 1997 to 2012 from Division of Taxation, annual Statistics of Income.

Average effective rates should remain relatively stable over time unless there are statutory tax rate changes. Following the permanent rate changes of 2004, the total average effective rate jumped from 2.58 percent to 3.01 percent. However, the source of this change in the total average effective rate can be seen in the jump among the $500,000-$1,000,000 group from 4.20 percent to 4.84 percent, and more starkly in the jump among the over-$1,000,000 income group from 4.45 percent to 6.23 percent, reflecting the impact of the new statutory marginal rate of 8.97 percent.

Also visible in Figure 12 is the one-year increase in average effective tax rates for incomes in excess of $400,000 in 2009. The average effective tax rate for the over-$1,000,000 income group rose temporarily from 6.16 percent in 2008 to 7.15 percent in 2009, before dropping back to 5.97 percent in 2010. The $500,000-$1,000,000 also saw a one-year jump in average effective tax rates.

CONCLUSION

Between 1997 and 2012, the New Jersey gross income tax continued a long-term shift toward a greater concentration of income and income tax liability among higher-income taxpayers. This trend is a function of increased marginal tax rates, the removal of certain lower-income taxpayers from the tax rolls, and of income growth shifting more taxpayers into higher marginal tax brackets. In addition, short-term income and tax liability patterns were strongly influenced by two economic recessions, including the most severe downturn since the Great Depression of the 1930s.

Gasoline Taxes - Motor Fuels and Petroleum Products Gross Receipts

New Jersey imposes two taxes on the sale of gasoline and diesel fuel, a Motor Fuels Tax and a Petroleum Products Gross Receipts Tax, which are collectively referred to as the "gas tax." In addition to these taxes, the federal government imposes a national excise tax on the sale of gasoline and diesel fuel sales (collectively, the "federal Motor Fuels Tax"). There are no local taxes on motor fuels in New Jersey. The combined federal, State, and local rate of taxation in New Jersey is the third lowest in the country at 32.9 cents per gallon for gasoline and the fifth lowest in the country at 41.9 cents per gallon for diesel.

New Jersey Motor Fuels Tax

The primary State tax on gasoline and diesel fuel is the Motor Fuels Tax (C.54:39-101 et seq.), which currently equals 10.5 cents per gallon on gasoline and 13.5 cents per gallon on diesel and kerosene fuel. In addition, liquefied petroleum gas is taxed at 5.25 cents per gallon and aviation fuel distributed to a general aviation airport is taxed at 2.0 cents per gallon. The Motor Fuels Tax was established in 1927 at 2.5 cents per gallon on all fuels. It was increased seven times, the last time to its current rate of 10.5 cents per gallon on July 1, 1988 (see Table 1).

When the Transportation Trust Fund Authority (TTFA) was created in 1985, a portion of Motor Fuels Tax revenue began to be constitutionally dedicated to State transportation system costs. The initial constitutional dedication was 2.5 cents per gallon of the taxed fuel. The constitutional dedication was subsequently increased four times, to 7.0 cents, 8.0 cents, 9.0 cents and lastly to 10.5 cents per gallon of gasoline and diesel fuel in 2007, where it currently remains (Table 1).

The Motor Fuels Tax was initially imposed on the consumer and collected by the retailer at the point of retail sale; however, 2010 changes to the Motor Fuels Tax require that the tax be pre-collected by the Division of Taxation (division) in the Department of the Treasury at the wholesale level from motor fuel suppliers. A supplier is typically an oil refinery or terminal. There are fewer than ten motor fuel suppliers in the State, vastly reducing the number of taxpaying entities that the division must interact with for tax collection purposes.

A large portion of fuel sales in the State are by in-State suppliers to in-State distributors. The tax collection system permits qualified distributors to delay payment of Motor Fuels Tax to suppliers until the 20th of the month following purchase. This allows motor fuels to travel the full length of the supply chain from supplier to distributor to retailer to final consumer without requiring qualified distributors or retailers to "carry" the cost of the tax until the fuel has been sold to a final consumer. Under this arrangement, a gas station typically delays its payment to a qualified distributor until the next motor fuel shipment arrives, allowing the gas station to sell the motor fuel before paying for the fuel and the tax. The qualified distributor then is able to make its Motor Fuels Tax payment with the proceeds from its sale to the retailer. In order to be a qualified distributor in this State, the distributor must post a bond against its gas tax payment equal to 300 percent of its largest Motor Fuels Tax payment in the prior 12 month period. Once electing to delay its Motor Fuels Tax payment, the qualified distributor becomes responsible for any penalties and interest for late payments, rather than the supplier. For any sales of motor fuel by out-of-state suppliers to distributors for use in-State, a qualified distributor is required to remit the tax due to the division within three days of the motor fuel entering the State. All distributors that have elected to not delay their tax payments are required to remit the tax due to the supplier at the time of purchase.

Certain uses are exempt from the Motor Fuels Tax, including: 1) Certain autobuses, including those used or contracted with NJ Transit and county transportation agencies and those paying monthly franchise taxes to municipalities; 2) Agricultural tractors not used on public highways; 3) Farm machinery; 4) Aircraft; 5) Ambulances and first-aid vehicles; 6) Fire engines and fire fighting vehicles; 7) Off-road use of on-road vehicles; 8) Non-highway equipment such as mixers, forklifts, pumps, cranes, etc.; 9) Fuel used as a solvent for cleaning; 10) Fuel used for heating and lighting equipment or generators; 11) Vehicles that operate exclusively on rails; 12) Boats and other watercraft for specific authorized uses, including Boy Scouts, oystering, sight-seeing, and commercial fishing; 13) Rural free delivery carriers; 14) Sales to government entities including federal, State, and State sub-divisions; 15) Exports to other states or countries; and 16) 3.0 cents per gallon of the diesel fuel is exempt when used by a passenger vehicle with a gross weight under 5,000 lbs.

Motor Fuels Tax Revenues

In FY 2015, the Motor Fuels Tax generated $535.6 million in State revenue. Of this amount, $516.0 million was appropriated into the TTFA and the remainder was appropriated for other unspecified purposes.

Historically, the trend in Motor Fuels Tax revenue has correlated to trends in population growth and development patterns. For instance, Motor Fuels Tax revenue grew at an annualized 2.03 percent rate from FY 1989, when the current tax rates were set, through FY 2004. This was a period of average economic growth and rapid real estate development in the State. Motor Fuels Tax revenue then declined by an annualized rate of 1.75 percent from FY 2007 through FY 2011. This was a recessionary period that included a housing crisis which severely reduced real estate development activity. The FY 2016 Motor Fuels Tax projection of $556.6 million included in the FY 2017 Governor's Budget Message is $32.3 million above the FY 2011 total, an annualized growth rate of 1.21 percent. However, annual revenue collections since the recent low point in FY 2011 have fluctuated. This volatility coincides with a period of highly variable retail motor fuel prices and a relatively slow recovery from the Great Recession of 2008-2009.

The uneven revenue performance since FY 2004 complicates Motor Fuels Tax revenue projections. Contributing factors to stagnant Motor Fuels Tax revenue collections include a shift in real estate development back into cities, increasing automobile fuel efficiency, lower rates of population growth, and a higher rate of household formation in urban areas relative to suburban areas. To the extent that these factors continue, they may inhibit future growth in Motor Fuels Tax revenue under the existing tax rates.

On the other hand, the significant decline in retail prices for motor fuels in the last two years has likely encouraged increased driving, higher fuel consumption, and increased Motor Fuels Tax revenue. The Executive increased its FY 2016 Motor Fuels Tax revenue estimate by $15.6 million since the enactment of the appropriations act, from $541.0 million to $556.6 million.

Motor Fuels Tax revenue and tax rates since the creation of the TTFA are as follows:

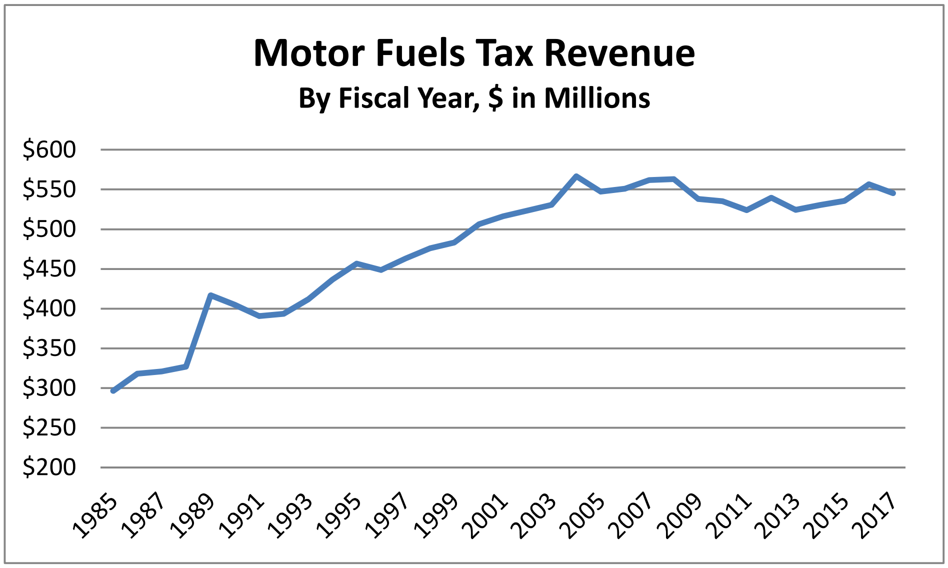
Table 1

State Rates and Distribution of Motor Fuel Taxes
($ in Millions)

			Dedication of Tax Revenue To Transportation Trust Fund		Total Tax Revenue
Year	Gas Rate	Diesel Rate	Statutory	Constitutional	
1985	8.0	11.0	2.5	2.5	$296.2
1986	8.0	11.0	2.5	2.5	318.2
1987	8.0	11.0	2.5	2.5	321.1
1988	8.0	11.0	2.5	2.5	327.0
1989	10.5	13.5	7.0	2.5	416.7
1990	10.5	13.5	7.0	2.5	404.9
1991	10.5	13.5	7.0	2.5	390.8
1992	10.5	13.5	7.0	2.5	393.6
1993	10.5	13.5	7.0	2.5	411.6
1994	10.5	13.5	7.0	2.5	436.5
1995	10.5	13.5	7.0	2.5	456.9
1996	10.5	13.5	7.0	2.5	448.7
1997	10.5	13.5	7.0	2.5	463.0
1998	10.5	13.5	7.0	7.0	476.1
1999	10.5	13.5	8.0	8.0	483.2
2000	10.5	13.5	9.0	9.0	506.4
2001	10.5	13.5	9.0	9.0	516.4
2002	10.5	13.5	9.0	9.0	523.8
2003	10.5	13.5	9.0	9.0	530.9
2004	10.5	13.5	9.0	9.0	566.8
2005	10.5	13.5	9.0	9.0	547.3
2006	10.5	13.5	9.0	9.0	550.9
2007	10.5	13.5	10.5	10.5	561.9
2008	10.5	13.5	10.5	10.5	563.2
2009	10.5	13.5	10.5	10.5	538.2
2010	10.5	13.5	10.5	10.5	535.3
2011	10.5	13.5	10.5	10.5	524.2
2012	10.5	13.5	10.5	10.5	539.7
2013	10.5	13.5	10.5	10.5	524.6
2014	10.5	13.5	10.5	10.5	530.4
2015	10.5	13.5	10.5	10.5	535.6
2016est.	10.5	13.5	10.5	10.5	556.6
2017est.	10.5	13.5	10.5	10.5	545.6

Rates in cents/gallon.
Dedication applies to allocations of both the gas and diesel rate.
Source: Transportation Trust Fund Authority and FY 2017 Governor's Budget Message.

Table 2



New Jersey Petroleum Products Gross Receipts Tax

In 1991, the State established a Petroleum Products Gross Receipts (PPGR) tax. This tax is imposed on the gross receipts from the first sale of petroleum products in New Jersey. This includes gasoline and diesel fuel, as well as a variety of other non-fuel petroleum products. The tax is imposed at two rates. Non-fuel petroleum products are taxed at a rate of 2.75 percent of the gross receipts from their first sale in the State. The tax on fuel oils, aviation fuels, and motor fuels is converted into a cents-per-gallon rate, initially in 1990 based on 2.75 percent of the retail price per gallon of gasoline but not less than a minimum 4.0 cents per gallon. This was subject to semi-annual adjustment, but the retail price never increased to a point that adjustment above the minimum was required. In 2000, the calculation was fixed to a retail pricing date that had the effect of fixing the rate to 4.0 cents per gallon.

The products subject to the 2.75 percent tax rate include: 1) Non-residential heating propane; 2) Paint thinners, cleaners, and solvents; 3) Lubricating oils (WD-40, mineral oil, petroleum jelly, motor oil, transmission fluid, etc.); 4) Asphalt cement and road oil; 5) Paraffin wax; 6) Petroleum coke (used in steel manufacturing); 7) Liquid refinery gases (butane for lighters); 8) Rocket fuels; and 9) Various oil-based consumer goods (baby oil, lotions, cold cream, cooking spray, furniture polish, makeup remover, mineral wax, paint thinner, nail polish remover, etc.).

Manufactured products that are not considered petroleum products and thus not subject to the PPGR tax include plastics, candles, animal feed, anti-freeze, roofing shingles, rubber tires, synthetic fibers, and medicated lip balms or petroleum jelly (if an active medical ingredient is added.)

For items taxed at the 2.75 percent rate, the division collects the tax from firms that first sell petroleum products in New Jersey. Typically, a refiner or importer is the entity responsible for payment when the product is first sold at the terminal level.

The division imposes the 4.0 cents per gallon PPGR tax on fuel suppliers directly. The supplier is responsible for making quarterly PPGR tax payments on the 25th of the month following the end of the quarter. Although the 25th is the date when the final balance of the quarterly payment is due, suppliers are required to make monthly payments to the division based on estimated fuel sales. The amount due on the 25th is the remaining balance when the tax documents are filed and the final accounting is performed on the total fuel sales by the supplier.

Heating fuels used for residential heating are exempt from the PPGR tax. To simplify PPGR tax collection, the division permits companies whose primary business is the sale of propane and heating oil for residential heating and companies that blend petroleum products into other petroleum products to become direct pay permit holders. A direct pay permit allows a company to purchase fuels from suppliers PPGR tax-free. Permit holding companies are thus treated like suppliers and required to make their PPGR tax payments on the 25th of the month following each quarter for their taxable fuel purchases, which consist mostly of non-residential heating fuel sales and fuel purchased for use by the company. Because most of the fuel purchased by direct pay permit holders is tax-exempt, they avoid paying taxes when they purchase the fuel and file for a refund after selling the fuel. The system also reduces the administrative cost to the division which avoids processing refunds for exempt fuel sales.

The PPGR tax is more burdensome on gasoline and diesel fuel distributors and retailers than the Motor Fuels Tax because the tax is embedded in the fuel price as the fuel moves down the supply chain so that distributors and retailers are unable to delay payment until they receive payment for their sales. Instead, the distributors and retailers, to the extent that they are required to pay for motor fuels upon delivery, must carry the cost of the tax payment until they receive payment for the motor fuel they sell.

In addition to residential heating fuels, the following products are exempt from the PPGR tax: 1) Marine fuels used for interstate and foreign commerce; 2) Aviation fuels used for interstate and foreign commerce; 3) Asphalt; 4) Propylene used to make polypropylene (plastics); 5) Purchases by nonprofit entities exempt from the sales tax; 6) Purchases by the State and federal government; and 7) Fuel used by co-generation facilities to generate electricity.

Petroleum Products Gross Receipts Tax Revenues

The Constitution dedicates PPGR tax revenue for State transportation system costs in an amount not less than $200 million per year. In FY 2015, the PPGR tax generated $215.1 million in State revenue, all of which was appropriated to the TTFA.

The factors impacting PPGR tax revenue trends are in part similar to those affecting Motor Fuels Tax collections, with population and real estate development growth leading to higher revenue. Yet, while the historical revenue patterns are correlated, the PPGR tax tends to be impacted to a larger degree by economic growth. This is due to the PPGR tax being a broader tax that applies to more products. Many of those products are consumer goods or inputs into consumer goods that are impacted by cyclical swings in the economy.

PPGR tax revenue has fluctuated since FY 2000 without a strong trend. Collections ranged from $206.5 million to $248.5 million, with most years posting totals between $210.0 million and $225.0 million. The Executive projects $218.1 million in each of FY 2016 and FY 2017.

PPGR tax revenues since FY 2000 are as follows:

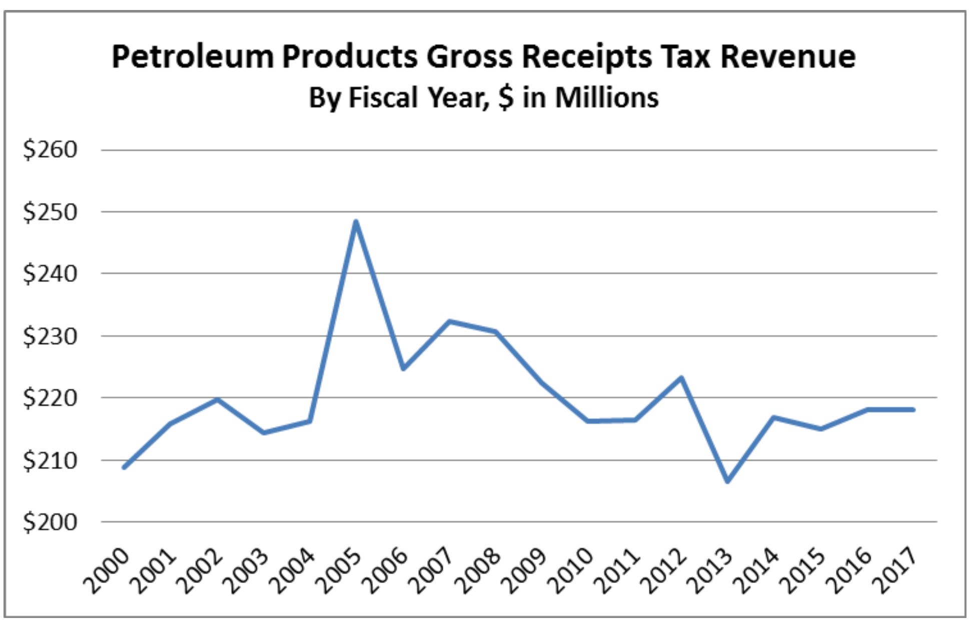
Table 3

Rates and Distribution of Petroleum Products Gross Receipts Taxes
$ in Millions

		Dedication of Tax Revenue To Transportation Trust Fund		Total Tax Revenue
Year	PPGR Rate*	Constitutional	Statutory	
2000	4.0/2.75%	$100.0	$100.0	$208.9
2001	4.0/2.75%	200.0	200.0	215.8
2002	4.0/2.75%	200.0	200.0	219.7
2003	4.0/2.75%	200.0	200.0	214.4
2004	4.0/2.75%	200.0	200.0	216.2
2005	4.0/2.75%	200.0	200.0	248.5
2006	4.0/2.75%	200.0	200.0	224.8
2007	4.0/2.75%	200.0	200.0	232.4
2008	4.0/2.75%	200.0	200.0	230.7
2009	4.0/2.75%	200.0	200.0	222.5
2010	4.0/2.75%	200.0	200.0	216.3
2011	4.0/2.75%	200.0	200.0	216.4
2012	4.0/2.75%	200.0	222.5	223.3
2013	4.0/2.75%	200.0	206.5	206.5
2014	4.0/2.75%	200.0	216.8	216.8
2015	4.0/2.75%	200.0	215.1	215.1
2016est.	4.0/2.75%	200.0	218.1	218.1
2017est.	4.0/2.75%	200.0	218.1	218.1

*Rate in cents/gallon.
Minimum constitutional dedication 2012-present is $200 million.
Source: Transportation Trust Fund Authority and FY 2017 GBM.

Table 4



Federal Gas Tax

The federal Motor Fuels Tax is imposed on the retail sale of various types of motor fuels on a cents-per-gallon basis. Other than a 0.1 cent per gallon amount dedicated to the Leaking Underground Storage Tank Trust Fund, federal Motor Fuels Tax revenues are dedicated to the Federal Highway Trust Fund, and then largely distributed to States as formula-based federal aid for State transportation projects. The federal Motor Fuels Tax on gasoline and diesel fuel is 18.4 and 24.4 cents per gallon respectively and was last increased in 1993.

New Jersey is among the states that receive the fewest federal dollars relative to the amount of revenue contributed to the Federal Highway Trust Fund from gasoline and diesel fuel sales occurring in the State. In 2011, the federal Government Accountability Office issued a report on the rate of return realized by states from 2005-2009 on federal Motor Fuels Tax revenue generated. New Jersey tied 11 other states for the lowest amount of relative funding, receiving back 91.3 percent of the federal dollars generated in the State.

Federal Motor Fuels Tax revenues are important to the states because the federal government redistributes the revenues back to the states as grant money. Most federal Motor Fuels Tax revenue collected in New Jersey is given back to New Jersey for many of the same purposes as the State Motor Fuels Tax. But, the State does not have the same flexibility in using federal dollars as it does in using State Motor Fuels Tax revenue. Federal regulations and restrictions on federal grants are widely considered to increase the cost of State transportation projects. Because of the close connection between the State and federal taxes, but differences in flexibility when appropriating the revenues, the existence of a federal Motor Fuels Tax limits the ability of states to impose that tax themselves and use the revenue more directly for their own purposes.

Table 5

Federal Rates and Distribution of Motor Fuel Taxes, 2016

(rate in cents/gallon)

			Distribution of Tax Revenue		
			Highway Trust Fund		Leaking Underground Storage Tank Trust Fund
Fuel Type	Effective Date	Tax Rate	Highway Account	Mass Transit Account	
Gasoline and Gasohol	10/1/97	18.4	15.44	2.86	0.1
Diesel and Kerosene	10/1/97	24.4	21.44	2.86	0.1
Alternative Fuels:					
Liq. Petrol Gas	10/1/06	18.3	16.17	2.13	-
Liq. Nat. Gas	10/1/06	24.3	22.44	1.86	-
Comp. Nat. Gas	10/1/06	18.3	17.07	1.23	-
Other Special Fuels	10/1/97	18.4	15.44	2.86	0.1

Source: Federal Highway Administration

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The Office of Legislative Services provides nonpartisan assistance to the State Legislature in the areas of legal, fiscal, research, bill drafting, committee staffing and administrative services. It operates under the jurisdiction of the Legislative Services Commission, a bipartisan body consisting of eight members of each House. The Executive Director supervises and directs the Office of Legislative Services.

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Individuals wishing information and committee schedules on the FY 2017 budget are encouraged to contact:

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