



State of New Jersey

DEPARTMENT OF THE TREASURY

PO Box 002

TRENTON, NEW JERSEY 08625

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

September 18, 2020

Mr. Frank Haines
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, NJ 08625

Dear Mr. Haines:

Pursuant to your letter dated September 10, 2020, it was requested that I provide a written response to the questions posed by Senator Singleton following the September 8, 2020 hearing of the Senate Budget & Appropriations Committee. The questions and their subsequent answers are as follows:

Senator Singleton:

What assumptions and projections did the department use to estimate that the proposed five percent surcharge on qualified business income will generate \$75 million in Fiscal Year 2021?

In Table 3 of their publication entitled JCX-32R-18, the Joint Committee on Taxation estimates that US taxpayers with incomes over \$1 million pay \$17.8 billion less annually under the new 199A deduction. Dividing this amount by the top federal income tax rate of 37% and the 20% deduction factor gives an approximate yearly QBI total of \$240.5 billion on the national level. Multiplying this by 3% (New Jersey's approximate share of US GDP) and the proposed tax rate of 5% gives about \$360.8 million. By comparing GIT estimated payments data for the first half of 2020 with the first half of 2019, we project that millionaire income might temporarily decrease by approximately 20% due to the COVID-19 pandemic; applying this reduction to the figure above gives an approximate impact of \$288.6 million for the first full year. However, since the change would not be effective until Tax Year 2021, this full amount would not be realized in Fiscal Year 2021. Instead, we estimate that Fiscal Year 2021 impact would be approximately 26% of this total, or \$75.0 million.

Sincerely,

Elizabeth Maher Muoio
State Treasurer

- c: Cathy Brennan, Deputy State Treasurer
David Ridolfino, Acting Director, Office of Management and Budget
Paul A. Sarlo, Chairman, Senate Budget and Appropriations Committee
Luke E. Wolff, Senate Democratic Office
Tom Neff, Senate Republican Office
Scott A. Brodsky, Office of Legislative Services
Parag Shende, Office of Legislative Services