

54:10A-5.38

LEGISLATIVE HISTORY CHECKLIST

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LAWS OF: 2005 **CHAPTER:** 318

NJSA: 54:10A-5.38 (Allows corporation business tax and gross income tax credits to businesses providing employment to qualified handicapped persons at sheltered workshops)

BILL NO: S487 (Substituted for A1991)

SPONSOR(S): Buono and Sweeney

DATE INTRODUCED: Pre-filed

COMMITTEE: **ASSEMBLY:** Appropriations

SENATE: Health, Human Services and Senior Citizens; Budget and Appropriations

AMENDED DURING PASSAGE: Yes

DATE OF PASSAGE: **ASSEMBLY:** January 9, 2006

SENATE: January 9, 2006

DATE OF APPROVAL: January 12, 2006

FOLLOWING ARE ATTACHED IF AVAILABLE:

[FINAL TEXT OF BILL](#) (1st reprint enacted)

S487

[SPONSOR'S STATEMENT](#): (Begins on page 4 of original bill) [Yes](#)

COMMITTEE STATEMENT: **ASSEMBLY:** [Yes](#)

SENATE: Yes [3-1-2004 \(H,HS &SC\)](#)
[5-20-2004 \(Bud & App\)](#)

FLOOR AMENDMENT STATEMENT: No

[LEGISLATIVE FISCAL NOTE](#): [Yes](#)

A1991

[SPONSOR'S STATEMENT](#): (Begins on page 4 of original bill) [Yes](#)

COMMITTEE STATEMENT: **ASSEMBLY:** Yes [5-3-2004 \(H &HS\)](#)
[1-5-2006 \(Approp\)](#)

SENATE: No

FLOOR AMENDMENT STATEMENT: No

[LEGISLATIVE FISCAL NOTE](#): [Yes](#)

VETO MESSAGE: No

GOVERNOR'S PRESS RELEASE ON SIGNING: No

FOLLOWING WERE PRINTED:

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REPORTS:

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HEARINGS:

No

NEWSPAPER ARTICLES:

No

IS 1/31/08

P.L. 2005, CHAPTER 318, *approved January 12, 2006*
Senate, No. 487 (*First Reprint*)

1 **AN ACT** allowing a credit against the corporation business tax and the
2 New Jersey gross income tax to businesses giving employment to
3 certain severely handicapped persons, supplementing P.L.1945,
4 c.162 (C.54:10A-1 et seq.) and Title 54A of the New Jersey
5 Statutes.

6

7 **BE IT ENACTED** by the Senate and General Assembly of the State
8 of New Jersey:

9

10 1. a. A taxpayer shall be allowed a credit against the tax imposed
11 pursuant to section 5 of P.L.1945, c.162 (C.54:10A-5), in an amount
12 equal to 20% of the salary and wages paid by the taxpayer during the
13 privilege period for the employment of a qualified person, but not to
14 exceed \$1,000 for each qualified person for the privilege period.

15 b. As used in this section:

16 "Qualified person" means an extended employee, within the
17 meaning of that term as set forth in section 2 of P.L.1971, c.272
18 (C.34:16-40), to whom the Commissioner of Labor, under subsection
19 (b) of section 18 of P.L.1966, c.113 (C.34:11-56a17), shall have
20 issued a special license authorizing employment at wages less than the
21 minimum wage rate, and who, for at least 26 weeks during the
22 privilege period, shall have performed at least 25 hours per week of
23 work at or under the supervision of a sheltered workshop pursuant to
24 a contract between the taxpayer and the sheltered workshop.

25 "Sheltered workshop" means an occupation-oriented facility
26 operated by a nonprofit agency with which the Division of Vocational
27 Rehabilitation Services in the Department of Labor shall have entered
28 into a contract under section 4 of P.L.1971, c.272 (C.34:16-42) to
29 furnish extended employment programs to eligible individuals.

30 c. The amount of the credit applied under this section against the
31 tax imposed pursuant to section 5 of P.L.1945, c.162 (C.54:10A-5),
32 for a privilege period, when taken together with any other credits
33 allowed against the tax imposed pursuant to section 5 of P.L.1945,
34 c.162, shall not exceed 50% of the tax liability otherwise due and shall
35 not reduce the tax liability to an amount less than the statutory
36 minimum provided in subsection (e) of section 5 of P.L.1945, c.162.
37 The priority in which credits allowed pursuant to this section and any
38 other credits shall be taken shall be determined by the Director of the

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Assembly AAP committee amendments adopted January 5, 2006.

1 Division of Taxation. The amount of the credit otherwise allowable
2 under this section which cannot be applied for the privilege period due
3 to the limitations of this subsection or under other provisions of
4 P.L.1945, c.162 may be carried over, if necessary, to the seven
5 privilege periods following the privilege period for which the credit
6 was allowed.

7

8 2. a. A taxpayer shall be allowed a credit against the tax otherwise
9 due for the taxable year under the "New Jersey Gross Income Tax
10 Act," N.J.S.54A:1-1 et seq., in an amount equal to 20% of the salary
11 and wages paid by the taxpayer during the taxable year for the
12 employment of a qualified person during the taxable year but not to
13 exceed \$1,000 for each qualified person for the taxable year.

14 b. As used in this section:

15 "Qualified person" means an extended employee, within the
16 meaning of that term as set forth in section 2 of P.L.1971, c.272
17 (C.34:16-40), to whom the Commissioner of the Department of Labor,
18 under subsection (b) of section 18 of P.L.1966, c.113 (C.34:11-
19 56a17), shall have issued a special license authorizing employment at
20 wages less than the minimum wage rate, and who, for at least 26
21 weeks during the taxable year, shall have performed at least 25 hours
22 per week of work at or under the supervision of a sheltered workshop
23 pursuant to a contract between the taxpayer and the sheltered
24 workshop.

25 "Sheltered workshop" means an occupation-oriented facility
26 operated by a non-profit agency with which the Division of Vocational
27 Rehabilitation Services in the New Jersey Department of Labor shall
28 have entered into a contract under section 4 of P.L.1971, c.272
29 (C.34:16-42) to furnish extended employment programs to eligible
30 individuals.

31 c. The amount of the credits applied under this section for a
32 taxable year, when taken together with any other credits allowed
33 against the tax imposed pursuant to N.J.S.54A:1-1 et seq., shall not
34 exceed 50% of the ¹taxpayer's¹ liability ¹[otherwise due] ¹for tax¹ for
35 the taxable year ¹that bears the same proportional relationship to the
36 total amount of such liability as the amount of the taxpayer's gross
37 income, derived from New Jersey sources and attributable to the
38 business or professional activity in which the taxpayer employs the
39 qualified person during that taxable year, bears to the taxpayer's entire
40 gross income for that year¹. Credits allowed pursuant to this section
41 shall be taken only after the taxpayer has taken all credits allowed
42 under ¹[N.J.S.54A:4-1 and -2, section 2 of P.L.1981, c.453 (C.54A:4-
43 4), and]¹ section 2 of P.L.2000, c.80 (C.54A:4-7). The amount of the
44 credit otherwise allowable under this section which cannot be applied
45 for the taxable year due to the limitations of this subsection may be
46 carried over, if necessary to the seven taxable years following the

1 taxable year for which the credit was allowed.

2 d. A partnership shall not be allowed a credit under this section
3 directly, but the amount of credit of a taxpayer in respect of a
4 distributive share of partnership income under the "New Jersey Gross
5 Income Tax Act," N.J.S.54A:1-1 et seq., shall be determined by
6 allocating to the taxpayer that proportion of the credit acquired by the
7 partnership that is equal to the taxpayer's share, whether or not
8 distributed, of the total distributive income or gain of the partnership
9 for its taxable year ending within or with the taxpayer's taxable year.

10 ¹[For the purposes of subsection c. of this section, the amount of tax
11 liability that would be otherwise due of a taxpayer is that proportion
12 of the total liability of the taxpayer that the taxpayer's share of the
13 partnership income or gain included in gross income bears to the total
14 gross income of the taxpayer.]¹

15

16 3. This act shall take effect immediately, and sections 1 and 2 shall
17 apply respectively to privilege periods and taxable years beginning
18 after enactment.

19

20

21

22

23 _____
24 Allows corporation business tax and gross income tax credits to
25 businesses providing employment to qualified handicapped persons at
sheltered workshops.

SENATE, No. 487

STATE OF NEW JERSEY 211th LEGISLATURE

PRE-FILED FOR INTRODUCTION IN THE 2004 SESSION

Sponsored by:

Senator BARBARA BUONO

District 18 (Middlesex)

Senator STEPHEN M. SWEENEY

District 3 (Salem, Cumberland and Gloucester)

Co-Sponsored by:

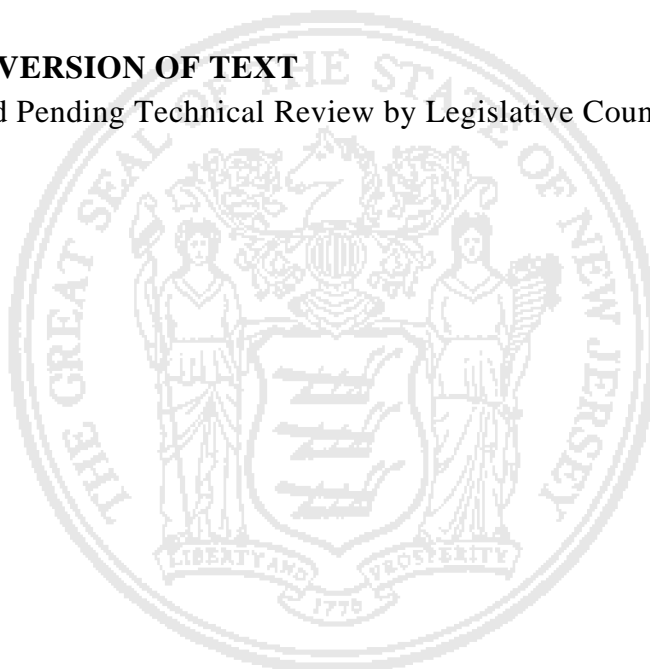
Senators Vitale, Cardinale, Kyrillos, Allen and Bucco

SYNOPSIS

Allows corporation business tax and gross income tax credits to businesses providing employment to qualified handicapped persons at sheltered workshops.

CURRENT VERSION OF TEXT

Introduced Pending Technical Review by Legislative Counsel.



1 AN ACT allowing a credit against the corporation business tax and the
2 New Jersey gross income tax to businesses giving employment to
3 certain severely handicapped persons, supplementing P.L.1945,
4 c.162 (C.54:10A-1 et seq.) and Title 54A of the New Jersey
5 Statutes.

6

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11 pursuant to section 5 of P.L.1945, c.162 (C.54:10A-5), in an amount
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14 exceed \$1,000 for each qualified person for the privilege period.

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20 issued a special license authorizing employment at wages less than the
21 minimum wage rate, and who, for at least 26 weeks during the
22 privilege period, shall have performed at least 25 hours per week of
23 work at or under the supervision of a sheltered workshop pursuant to
24 a contract between the taxpayer and the sheltered workshop.

25 "Sheltered workshop" means an occupation-oriented facility
26 operated by a nonprofit agency with which the Division of Vocational
27 Rehabilitation Services in the Department of Labor shall have entered
28 into a contract under section 4 of P.L.1971, c.272 (C.34:16-42) to
29 furnish extended employment programs to eligible individuals.

30 c. The amount of the credit applied under this section against the
31 tax imposed pursuant to section 5 of P.L.1945, c.162 (C.54:10A-5),
32 for a privilege period, when taken together with any other credits
33 allowed against the tax imposed pursuant to section 5 of P.L.1945,
34 c.162, shall not exceed 50% of the tax liability otherwise due and shall
35 not reduce the tax liability to an amount less than the statutory
36 minimum provided in subsection (e) of section 5 of P.L.1945, c.162.
37 The priority in which credits allowed pursuant to this section and any
38 other credits shall be taken shall be determined by the Director of the
39 Division of Taxation. The amount of the credit otherwise allowable
40 under this section which cannot be applied for the privilege period due
41 to the limitations of this subsection or under other provisions of
42 P.L.1945, c.162 may be carried over, if necessary, to the seven
43 privilege periods following the privilege period for which the credit
44 was allowed.

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46 2. a. A taxpayer shall be allowed a credit against the tax otherwise

1 due for the taxable year under the "New Jersey Gross Income Tax
2 Act," N.J.S.54A:1-1 et seq., in an amount equal to 20% of the salary
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10 (b) of section 18 of P.L.1966, c.113 (C.34:11-56a17), shall have
11 issued a special license authorizing employment at wages less than the
12 minimum wage rate, and who, for at least 26 weeks during the taxable
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14 under the supervision of a sheltered workshop pursuant to a contract
15 between the taxpayer and the sheltered workshop.

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17 operated by a nonprofit agency with which the Division of Vocational
18 Rehabilitation Services in the Department of Labor shall have entered
19 into a contract under section 4 of P.L.1971, c.272 (C.34:16-42) to
20 furnish extended employment programs to eligible individuals.

21 c. The amount of the credits applied under this section for a
22 taxable year, when taken together with any other credits allowed
23 against the tax imposed pursuant to N.J.S.54A:1-1 et seq., shall not
24 exceed 50% of the liability otherwise due for the taxable year. Credits
25 allowed pursuant to this section shall be taken only after the taxpayer
26 has taken all credits allowed under N.J.S.54A:4-1 and 54A:4-2,
27 section 2 of P.L.1981, c.453 (C.54A:4-4), and section 2 of P.L.2000,
28 c.80 (C.54A:4-7). The amount of the credit otherwise allowable under
29 this section which cannot be applied for the taxable year due to the
30 limitations of this subsection may be carried over, if necessary, to the
31 seven taxable years following the taxable year for which the credit was
32 allowed.

33 d. A partnership shall not be allowed a credit under this section
34 directly, but the amount of credit of a taxpayer in respect of a
35 distributive share of partnership income under the "New Jersey Gross
36 Income Tax Act," N.J.S.54A:1-1 et seq., shall be determined by
37 allocating to the taxpayer that proportion of the credit acquired by the
38 partnership that is equal to the taxpayer's share, whether or not
39 distributed, of the total distributive income or gain of the partnership
40 for its taxable year ending within or with the taxpayer's taxable year.
41 For the purposes of subsection c. of this section, the amount of tax
42 liability that would be otherwise due from a taxpayer is that proportion
43 of the total liability of the taxpayer that the taxpayer's share of the
44 partnership income or gain included in gross income bears to the total
45 gross income of the taxpayer.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 487

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: JANUARY 5, 2006

The Assembly Appropriations Committee reports favorably Senate Bill No. 487, with committee amendments.

Senate Bill No. 487, as amended, provides corporation business tax and gross income tax credits to businesses that provide employment at an occupational training center/sheltered workshop, under a contract with the workshop, for the performance of services (usually product assembly and packaging services) by the workshop's handicapped clients. The amount of the credit would be equal to 20% of the wages and salaries paid to these individuals pursuant to the contract, up to \$1,000 per person, per tax period.

The tax credits provided under this bill will support the sheltered workshop operations of Easter Seals and other nonprofit sponsors of facilities that provide employment to the developmentally disabled under contract with private employers. These sponsors maintain workshop facilities at which people with developmental disabilities that prevent them from participating in the regular labor force are allowed, under special licenses issued by the Department of Labor, to work at a scale of pay below the minimum statutory wage rate. This pay scale is computed on the basis of the local prevailing wage for similar work, with an adjustment for worker productivity. Although below the minimum wage, the adjusted pay scale is not always competitive with the wage that the private employer would pay if it contracted the work to a foreign concern. Allowance of the tax credit would provide these employers with an incentive to place their contracted-out work with sheltered workshops in New Jersey, rather than sending it abroad.

As amended and reported by the committee, this bill is identical to Assembly Bill No. 1991 (1R), as also reported by the committee.

FISCAL IMPACT:

Extended employees, as part-time sub-minimum-wage workers, are paid an average of roughly \$2,900 per year; under the bill, the credit amount for each would be 20 percent of the wages paid, or an average of \$580. The most recent census of these workers placed at sheltered workshops through the Division of Vocational Rehabilitation Services

places their number at 2,700. Assuming that 20 percent of these employees are performing work for public employers (who do not pay income tax), and that employers of only 25 percent of the remainder both qualify for and claim the credit, the potential cost of the legislation in lost State tax revenue could be approximately \$310,000.

COMMITTEE AMENDMENTS:

The amendments clarify that the gross income tax credits are limited to application against that portion of a taxpayer's liability that reflects the taxpayer's New Jersey source income from the activity or business in which the workshop's handicapped clients are employed.

The amendments also make technical changes, deleting references to credits that reflect prior payments of tax by the taxpayer rather than tax incentives to the taxpayer.

SENATE HEALTH, HUMAN SERVICES AND SENIOR
CITIZENS COMMITTEE

STATEMENT TO

SENATE, No. 487

STATE OF NEW JERSEY

DATED: MARCH 1, 2004

The Senate Health, Human Services and Senior Citizens Committee reports favorably Senate Bill No. 487.

This bill provides corporation business tax and gross income tax credits to businesses that provide employment at an occupational training center/sheltered workshop, under a contract with the workshop, for the performance of services (usually product assembly and packaging services) by the workshop's handicapped clients. The amount of the credit would be equal to 20% of the wages and salaries paid to these individuals pursuant to the contract, up to \$1,000 per person, per tax period.

The tax credits provided under this bill will support the sheltered workshop operations of Easter Seals and other nonprofit sponsors of facilities that provide employment to the developmentally disabled under contract with private employers. These sponsors maintain workshop facilities at which people with developmental disabilities that prevent them from participating in the regular labor force are allowed, under special licenses issued by the Department of Labor, to work at a scale of pay below the minimum statutory wage rate. This pay scale is computed on the basis of the local prevailing wage for similar work, with an adjustment for worker productivity. Although below the minimum wage, the adjusted pay scale is not always competitive with the wage that the private employer would pay if it contracted the work to a foreign concern. Allowance of the tax credit would provide these employers with an incentive to place their contracted-out work with sheltered workshops in New Jersey, rather than sending it abroad.

This bill was pre-filed for introduction in the 2004-2005 session pending technical review. As reported, the bill includes the changes required by technical review, which has been performed.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 487

STATE OF NEW JERSEY

DATED: MAY 20, 2004

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 487.

This bill provides corporation business tax and gross income tax credits to businesses that provide employment at an occupational training center/sheltered workshop, under a contract with the workshop, for the performance of services (usually product assembly and packaging services) by the workshop's handicapped clients. The amount of the credit would be equal to 20% of the wages and salaries paid to these individuals pursuant to the contract, up to \$1,000 per person, per tax period.

The tax credits provided under this bill will support the sheltered workshop operations of Easter Seals and other nonprofit sponsors of facilities that provide employment to the developmentally disabled under contract with private employers. These sponsors maintain workshop facilities at which people with developmental disabilities that prevent them from participating in the regular labor force are allowed, under special licenses issued by the Department of Labor, to work at a scale of pay below the minimum statutory wage rate. This pay scale is computed on the basis of the local prevailing wage for similar work, with an adjustment for worker productivity. Although below the minimum wage, the adjusted pay scale is not always competitive with the wage that the private employer would pay if it contracted the work to a foreign concern. Allowance of the tax credit would provide these employers with an incentive to place their contracted-out work with sheltered workshops in New Jersey, rather than sending it abroad.

FISCAL IMPACT

Extended employees, as part-time sub-minimum-wage workers, are paid an average of roughly \$2,900 per year; under the bill, the credit amount for each would be 20 percent of the wages paid, or an average of \$580. The most recent census of these workers placed at sheltered workshops through the Division of Vocational Rehabilitation Services places their number at 2,700. Assuming that 20 percent of these employees are performing work for public employers (who do not pay income tax), and that employers of only 25 percent of the remainder both qualify for and claim the credit, the potential cost of the legislation in lost State tax revenue could be approximately \$310,000.

FISCAL NOTE
SENATE, No. 487
STATE OF NEW JERSEY
211th LEGISLATURE

DATED: JUNE 9, 2004

SUMMARY

Synopsis: Allows corporation business tax and gross income tax credits to businesses providing employment to qualified handicapped persons at sheltered workshops.

Type of Impact: Foregone Annual General Fund and Property Tax Relief Fund Revenue.

Agencies Affected: Department of the Treasury.

Executive Estimate

Fiscal Impact	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State Cost	\$270,000	\$540,000	\$810,000

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State Cost	\$310,000	\$320,000	\$330,000

- ! The Office of Legislative Services (OLS) **does not concur** with the Executive estimate that the bill's cost would double in FY 2006 and triple over FY 2005's cost in FY 2007. OLS anticipates the annual revenue loss to remain relatively flat.
- ! The bill allows a tax credit only for the pay of the roughly 2,700 employees at sheltered workshops that have entered into a contract with the Division of Vocational Rehabilitation Services within the Department of Labor. It does not encompass the roughly 600 employees at sheltered workshops that have entered into a contract with the Division of Developmental Disabilities within the Department of Human Services.
- ! Sheltered workshop employees perform about 80 percent of their services for the private sector.
- ! The estimate assumes that no significant program changes will occur in the near future.

BILL DESCRIPTION

Senate Bill No. 487 of 2004 provides corporation business tax and gross income tax credits to businesses that contract with an occupational training center/sheltered workshop for the performance of services (usually product assembly and packaging) by the workshop's handicapped clients. The amount of the credit is equal to 20 percent of the wages and salaries paid per employee, up to \$1,000 per employee per tax period.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Department of the Treasury projects that this bill would result in at most \$270,000 of foregone State revenue in FY 2005, \$540,000 in FY 2006, and \$810,000 in FY 2007. While the department acknowledges that the figures have a corporation business tax and a gross income tax component, it cannot determine the specific allocation of this revenue loss between the General Fund and the Property Tax Relief Fund.

Citing the FY 2003 State Budget, the department states that 2,721 individuals perform services at sheltered workshops. It estimates that the State would forego approximately \$2.7 million annually, if employers who are contracting with sheltered workshops were eligible to claim the bill's maximum credit amount of \$1,000 per sheltered workshop employee. With an assumed ten percent participation rate, the department puts its final FY 2005 estimate at roughly \$270,000. Nonetheless, it notes that the revenue loss might even be smaller if some qualified employers were subject to the Corporation Business Tax Alternative Minimum Assessment, which does not consider tax credits.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) expects this bill to decrease New Jersey corporation business tax and gross income tax collections by \$310,000 in FY 2005, \$320,000 in FY 2006, and \$330,000 in FY 2007. Lacking pertinent information, OLS cannot ascertain the specific allocation of this revenue loss between the General Fund and the Property Tax Relief Fund.

OLS disagrees with the Department of the Treasury estimate that this bill's cost would double in FY 2006 and triple over FY 2005's cost in 2007. The bill's language does not warrant such a progression and the Department does not justify it. As OLS foresees no systematic changes that would significantly alter the cost of this bill following enactment, it holds its cost in the out years relatively flat.

The Department of Labor reports that 2,699 handicapped employees are currently working at sheltered workshops under the purview of the Division of Vocational Rehabilitation Services (DVRS) within the Department of Labor. The Division of Developmental Disabilities (DDD) within the Department of Human Services has 600 additional contracted slots with sheltered workshops. Since the bill encompasses only sheltered workshops with which DVRS entered into a contractual relationship, this estimate ignores the DDD's 600 contracted slots.

According to the Department of Labor, the private sector accounts for roughly 80 percent of the services performed by sheltered workshops, at which a typical employee works five hours

per day, five days per week, and 52 weeks per year. At an approximate \$2.20 per hour, a typical employee earns about \$2,860 per annum, so that this bill would authorize a taxpayer to claim a credit for about \$570 per employee--20 percent of his or her salaries and wages.

OLS assumes that 25 percent of private sector contractors will claim the credit. The percentage is partially assumed to be this low because corporations that fall under the Corporation Business Tax Alternative Minimum Assessment will be statutorily preempted from claiming the credit. Recent changes to the corporation business tax leave OLS without historical data indicating which percentage of businesses might pay the Corporation Business Tax Alternative Minimum Assessment.

Considering the number of employees at workshops under contract with the DVRS performing services for private contractors, their annual pay, and the assumed 25 percent tax credit claiming rate, OLS estimates this bill's FY 2005 revenue loss to be about \$310,000. If sheltered workshops under contract with the DDD were to be included in the bill, the FY 2005 cost would increase to approximately \$380,000.

Section: *Revenue, Finance and Appropriations*

Analyst: *Thomas Koenig*
Assistant Fiscal Analyst

Approved: *David J. Rosen*
Legislative Budget and Finance Officer

This fiscal note has been prepared pursuant to P.L.1980, c.67.

ASSEMBLY, No. 1991

STATE OF NEW JERSEY
211th LEGISLATURE

INTRODUCED JANUARY 26, 2004

Sponsored by:

Assemblywoman LORETTA WEINBERG

District 37 (Bergen)

SYNOPSIS

Allows corporation business tax and gross income tax credits to businesses providing employment to qualified handicapped persons at sheltered workshops.

CURRENT VERSION OF TEXT

As introduced.



A1991 WEINBERG

1 **AN ACT** allowing a credit against the corporation business tax and the
2 New Jersey gross income tax to businesses giving employment to
3 certain severely handicapped persons, supplementing P.L.1945,
4 c.162 (C.54:10A-1 et seq.) and Title 54A of the New Jersey
5 Statutes.

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7 **BE IT ENACTED** *by the Senate and General Assembly of the State*
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10 1. a. A taxpayer shall be allowed a credit against the tax imposed
11 pursuant to section 5 of P.L.1945, c.162 (C.54:10A-5), in an amount
12 equal to 20% of the salary and wages paid by the taxpayer during the
13 privilege period for the employment of a qualified person but not to
14 exceed \$1,000 for each qualified person for the privilege period.

15 b. As used in this section:

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17 meaning of that term as set forth in section 2 of P.L.1971, c.272
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19 under subsection (b) of section 18 of P.L.1966, c.113 (C.34:11-
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22 weeks during the privilege period, shall have performed at least 25
23 hours per week of work at or under the supervision of a sheltered
24 workshop pursuant to a contract between the taxpayer and the
25 sheltered workshop.

26 "Sheltered workshop" means an occupation-oriented facility
27 operated by a non-profit agency with which the Division of Vocational
28 Rehabilitation Services in the New Jersey Department of Labor shall
29 have entered into a contract under section 4 of P.L.1971, c.272
30 (C.34:16-42) to furnish extended employment programs to eligible
31 individuals.

32 c. The amount of the credit applied under this section against the
33 tax imposed pursuant to section 5 of P.L.1945, c.162, for a privilege
34 period, when taken together with any other credits allowed against the
35 tax imposed pursuant to section 5 of P.L.1945, c.162, shall not exceed
36 50% of the tax liability otherwise due and shall not reduce the tax
37 liability to an amount less than the statutory minimum provided in
38 subsection (e) of section 5 of P.L.1945, c.162. The priority in which
39 credits allowed pursuant to this section and any other credits shall be
40 taken shall be as determined by the Director of the Division of
41 Taxation. The amount of the credit otherwise allowable under this
42 section which cannot be applied for the privilege period due to the
43 limitations of this subsection or under other provisions of P.L.1945,
44 c.162 may be carried over, if necessary, to the seven privilege periods
45 following the privilege period for which the credit was allowed.

1 2. a. A taxpayer shall be allowed a credit against the tax otherwise
2 due for the taxable year under the "New Jersey Gross Income Tax
3 Act," N.J.S.54A:1-1 et seq., in an amount equal to 20% of the salary
4 and wages paid by the taxpayer during the taxable year for the
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11 under subsection (b) of section 18 of P.L.1966, c.113 (C.34:11-
12 56a17), shall have issued a special license authorizing employment at
13 wages less than the minimum wage rate, and who, for at least 26
14 weeks during the taxable year, shall have performed at least 25 hours
15 per week of work at or under the supervision of a sheltered workshop
16 pursuant to a contract between the taxpayer and the sheltered
17 workshop.

18 "Sheltered workshop" means an occupation-oriented facility
19 operated by a non-profit agency with which the Division of Vocational
20 Rehabilitation Services in the New Jersey Department of Labor shall
21 have entered into a contract under section 4 of P.L.1971, c.272
22 (C.34:16-42) to furnish extended employment programs to eligible
23 individuals.

24 c. The amount of the credits applied under this section for a
25 taxable year, when taken together with any other credits allowed
26 against the tax imposed pursuant to N.J.S.54A:1-1 et seq., shall not
27 exceed 50% of the liability otherwise due for the taxable year. Credits
28 allowed pursuant to this section shall be taken only after the taxpayer
29 has taken all credits allowed under N.J.S.54A:4-1 and -2, section 2 of
30 P.L.1981, c.453 (C.54A:4-4), and section 2 of P.L.2000, c.80
31 (C.54A:4-7). The amount of the credit otherwise allowable under this
32 section which cannot be applied for the taxable year due to the
33 limitations of this subsection may be carried over, if necessary to the
34 seven taxable years following the taxable year for which the credit was
35 allowed.

36 d. A partnership shall not be allowed a credit under this section
37 directly, but the amount of credit of a taxpayer in respect of a
38 distributive share of partnership income under the "New Jersey Gross
39 Income Tax Act," N.J.S.54A:1-1 et seq., shall be determined by
40 allocating to the taxpayer that proportion of the credit acquired by the
41 partnership that is equal to the taxpayer's share, whether or not
42 distributed, of the total distributive income or gain of the partnership
43 for its taxable year ending within or with the taxpayer's taxable year.
44 For the purposes of subsection c. of this section, the amount of tax
45 liability that would be otherwise due of a taxpayer is that proportion
46 of the total liability of the taxpayer that the taxpayer's share of the

1 partnership income or gain included in gross income bears to the total
2 gross income of the taxpayer.

3

4 3. This act shall take effect immediately, and sections 1 and 2 shall
5 apply respectively to privilege periods and taxable years beginning
6 after enactment.

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8

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STATEMENT

10

11 This bill provides corporation business tax and gross income tax
12 credits to businesses that provide employment at an occupational
13 training center/sheltered workshop under a contract with the workshop
14 for the performance of services (usually product assembly and
15 packaging services) by the workshop's handicapped clients. The
16 amount of the credit would be equal to 20% of the wages and salaries
17 paid to these individuals pursuant to the contract, up to \$1,000 per
18 person per tax period.

19 The tax credits provided under this bill will support the sheltered
20 workshop operations of Easter Seals and other nonprofit sponsors of
21 facilities that provide employment to the developmentally disabled
22 under contract with private employers. These sponsors maintain
23 workshop facilities at which people with developmental disabilities
24 that prevent them from participating in the regular labor force are
25 allowed, under special licenses issued by the Department of Labor, to
26 work at a scale of pay below the minimum statutory wage rate. This
27 pay scale is computed on the basis of the local prevailing wage for
28 similar work, with an adjustment for worker productivity; though
29 below the minimum wage, it is not always competitive with the wage
30 that the private employer would pay if it contracted the work to a
31 foreign concern. Allowance of the tax credit would provide these
32 employers with an incentive to place their contracted-out work with
33 sheltered workshops in New Jersey, rather than sending it abroad.

ASSEMBLY HEALTH AND HUMAN SERVICES COMMITTEE

STATEMENT TO

ASSEMBLY, No. 1991

with committee amendments

STATE OF NEW JERSEY

DATED: MAY 3, 2004

The Assembly Health and Human Services Committee reports favorably and with committee amendments Assembly Bill No. 1991.

As amended by the committee, this bill provides corporation business tax (CBT) and gross income tax (GIT) credits to businesses providing employment to qualified handicapped persons at sheltered workshops.

Specifically, the bill provides CBT and GIT credits to businesses that provide employment at an occupational training center/sheltered workshop under a contract with the workshop for the performance of services (usually product assembly and packaging services) by the workshop's handicapped clients, with the amount of the credit to equal 20% of the wages and salaries paid to these individuals pursuant to the contract, up to \$1,000 per person per tax period.

The CBT credits provided under the bill are limited to not more than 50% of the tax liability of the business for the privilege period and cannot reduce that tax liability below the minimum corporate tax.

The GIT credits are limited to not more than 50% of the tax liability of the business for the taxable year that bears the same proportional relationship to the total amount of such liability as the amount of the taxpayer's gross income, derived from New Jersey sources and attributable to the business in which the taxpayer employs the employee during that taxable year, bears to the taxpayer's entire gross income for that year.

The tax credits provided under this bill for providing employment at an occupational training center/sheltered workshop will support the sheltered workshop operations of Easter Seals and other nonprofit sponsors of facilities that provide employment to the developmentally disabled under contract with private employers. These sponsors maintain workshop facilities at which people with developmental disabilities that prevent them from participating in the regular labor force are allowed, under special licenses issued by the Department of Labor, to work at a scale of pay below the minimum statutory wage rate. This pay scale is computed on the basis of the local prevailing wage for similar work, with an adjustment for worker productivity;

though below the minimum wage, it is not always competitive with the wage that the private employer would pay if it contracted the work to a foreign concern. Allowance of the tax credit would provide these employers with an incentive to place their contracted-out work with sheltered workshops in New Jersey, rather than sending it abroad.

COMMITTEE AMENDMENTS

The committee amendments to the bill clarify that the GIT credits are limited to not more than 50% of the tax liability of the business for the taxable year that bears the same proportional relationship to the total amount of such liability as the amount of the taxpayer's gross income, derived from New Jersey sources and attributable to the business in which the taxpayer employs the employee during that taxable year, bears to the taxpayer's entire gross income for that year.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]

ASSEMBLY, No. 1991

STATE OF NEW JERSEY

DATED: JANUARY 5, 2006

The Assembly Appropriations Committee reports favorably Assembly Bill No. 1991 (1R).

Assembly Bill No. 1991 (1R) provides corporation business tax and gross income tax credits to businesses that provide employment at an occupational training center/sheltered workshop, under a contract with the workshop, for the performance of services (usually product assembly and packaging services) by the workshop's handicapped clients. The amount of the credit equals to 20% of the wages and salaries paid to these individuals pursuant to the contract, up to \$1,000 per person, per tax period.

The tax credits provided under this bill will support the sheltered workshop operations of Easter Seals and other nonprofit sponsors of facilities that provide employment to the developmentally disabled under contract with private employers. These sponsors maintain workshop facilities at which people with developmental disabilities that prevent them from participating in the regular labor force are allowed, under special licenses issued by the Department of Labor, to work at a scale of pay below the minimum statutory wage rate. This pay scale is computed on the basis of the local prevailing wage for similar work, with an adjustment for worker productivity. Although below the minimum wage, the adjusted pay scale is not always competitive with the wage that the private employer would pay if it contracted the work to a foreign concern. Allowance of the tax credit would provide these employers with an incentive to place their contracted-out work with sheltered workshops in New Jersey, rather than sending it abroad.

As reported by the committee, this bill is identical to Senate Bill No. 487, as amended and also reported by the committee.

FISCAL IMPACT:

Extended employees, as part-time sub-minimum-wage workers, are paid an average of roughly \$2,900 per year; under the bill, the credit amount for each would be 20 percent of the wages paid, or an average of \$580. The most recent census of these workers placed at sheltered workshops through the Division of Vocational Rehabilitation Services places their number at 2,700. Assuming that 20 percent of these employees are performing work for

public employers (who do not pay income tax), and that employers of only 25 percent of the remainder both qualify for and claim the credit, the potential cost of the legislation in lost State tax revenue could be approximately \$310,000.

FISCAL NOTE
[First Reprint]
ASSEMBLY, No. 1991
STATE OF NEW JERSEY
211th LEGISLATURE

DATED: JUNE 9, 2004

SUMMARY

Synopsis: Allows corporation business tax and gross income tax credits to businesses providing employment to qualified handicapped persons at sheltered workshops.

Type of Impact: Foregone Annual General Fund and Property Tax Relief Fund Revenue.

Agencies Affected: Department of the Treasury.

Executive Estimate

Fiscal Impact	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State Cost	\$270,000	\$540,000	\$810,000

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State Cost	\$310,000	\$320,000	\$330,000

- ! The Office of Legislative Services (OLS) **does not concur** with the Executive estimate that the bill's cost would double in FY 2006 and triple over FY 2005's cost in FY 2007. OLS anticipates the annual revenue loss to remain relatively flat.
- ! The bill allows a tax credit only for the pay of the roughly 2,700 employees at sheltered workshops that have entered into a contract with the Division of Vocational Rehabilitation Services within the Department of Labor. It does not encompass the roughly 600 employees at sheltered workshops that have entered into a contract with the Division of Developmental Disabilities within the Department of Human Services.
- ! Sheltered workshop employees perform about 80 percent of their services for the private sector.
- ! The estimate assumes that no significant program changes will occur in the near future.

BILL DESCRIPTION

Assembly Bill No. 1991 (1R) of 2004 provides corporation business tax and gross income tax credits to businesses that contract with an occupational training center/sheltered workshop for the performance of services (usually product assembly and packaging) by the workshop's handicapped clients. The amount of the credit is equal to 20 percent of the wages and salaries paid per employee, up to \$1,000 per employee per tax period.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Department of the Treasury projects that this bill would result in at most \$270,000 of foregone State revenue in FY 2005, \$540,000 in FY 2006, and \$810,000 in FY 2007. While the department acknowledges that the figures have a corporation business tax and a gross income tax component, it cannot determine the specific allocation of this revenue loss between the General Fund and the Property Tax Relief Fund.

Citing the FY 2003 State Budget, the department states that 2,721 individuals perform services at sheltered workshops. It estimates that the State would forego approximately \$2.7 million annually, if employers who are contracting with sheltered workshops were eligible to claim the bill's maximum credit amount of \$1,000 per sheltered workshop employee. With an assumed ten percent participation rate, the department puts its final FY 2005 estimate at roughly \$270,000. Nonetheless, it notes that the revenue loss might even be smaller if some qualified employers were subject to the Corporation Business Tax Alternative Minimum Assessment, which does not consider tax credits.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) expects this bill to decrease New Jersey corporation business tax and gross income tax collections by \$310,000 in FY 2005, \$320,000 in FY 2006, and \$330,000 in FY 2007. Lacking pertinent information, OLS cannot ascertain the specific allocation of this revenue loss between the General Fund and the Property Tax Relief Fund.

OLS disagrees with the Department of the Treasury estimate that this bill's cost would double in FY 2006 and triple over FY 2005's cost in 2007. The bill's language does not warrant such a progression and the Department does not justify it. As OLS foresees no systematic changes that would significantly alter the cost of this bill following enactment, it holds its cost in the out years relatively flat.

The Department of Labor reports that 2,699 handicapped employees are currently working at sheltered workshops under the purview of the Division of Vocational Rehabilitation Services (DVRS) within the Department of Labor. The Division of Developmental Disabilities (DDD) within the Department of Human Services has 600 additional contracted slots with sheltered workshops. Since the bill encompasses only sheltered workshops with which DVRS entered into a contractual relationship, this estimate ignores the DDD's 600 contracted slots.

According to the Department of Labor, the private sector accounts for roughly 80 percent of the services performed by sheltered workshops, at which a typical employee works five hours per day, five days per week, and 52 weeks per year. At an approximate \$2.20 per hour, a typical employee earns about \$2,860 per annum, so that this bill would authorize a taxpayer to claim

a credit for about \$570 per employee--20 percent of his or her salaries and wages.

OLS assumes that 25 percent of private sector contractors will claim the credit. The percentage is partially assumed to be this low because corporations that fall under the Corporation Business Tax Alternative Minimum Assessment will be statutorily preempted from claiming the credit. Recent changes to the corporation business tax leave OLS without historical data indicating which percentage of businesses might pay the Corporation Business Tax Alternative Minimum Assessment.

Considering the number of employees at workshops under contract with the DVRS performing services for private contractors, their annual pay, and the assumed 25 percent tax credit claiming rate, OLS estimates this bill's FY 2005 revenue loss to be about \$310,000. If sheltered workshops under contract with the DDD were to be included in the bill, the FY 2005 cost would increase to approximately \$380,000.

Section: *Revenue, Finance and Appropriations*

Analyst: *Thomas Koenig*
Assistant Fiscal Analyst

Approved: *David J. Rosen*
Legislative Budget and Finance Officer

This fiscal note has been prepared pursuant to P.L.1980, c.67.