

54A:4-7

LEGISLATIVE HISTORY CHECKLIST

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LAWS OF: 2007 **CHAPTER:** 109

NJSA: 54A:4-7 (Expands eligibility for NJ earned income tax credit program)

BILL NO: S2647 (Substituted for A5001)

SPONSOR(S): Rice and others

DATE INTRODUCED: May 14, 2007

COMMITTEE: **ASSEMBLY:**

SENATE: Budget and Appropriations

AMENDED DURING PASSAGE: No

DATE OF PASSAGE: **ASSEMBLY:** June 21, 2007

SENATE: June 21, 2007

DATE OF APPROVAL: June 28, 2007

FOLLOWING ARE ATTACHED IF AVAILABLE:

[FINAL TEXT OF BILL](#) (Original version of bill enacted)

S2647

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

COMMITTEE STATEMENT: **ASSEMBLY:** No

SENATE: [Yes](#)

FLOOR AMENDMENT STATEMENT: No

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

A5001

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

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

SENATE: No

FLOOR AMENDMENT STATEMENT: No

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

VETO MESSAGE: No

[GOVERNOR'S PRESS RELEASE ON SIGNING:](#) [Yes](#) [2-12-08](#)

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HEARINGS: No

NEWSPAPER ARTICLES: No

IS 4/14/08

P.L. 2007, CHAPTER 109, *approved June 28, 2007*
Senate, No. 2647

1 AN ACT expanding eligibility for the New Jersey earned income tax
2 credit program to equal eligibility under the federal earned
3 income tax program and enhancing the benefit amount, and
4 amending P.L.2000, c.80.

5

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

8

9 1. Section 2 of P.L.2000, c.80 (C.54A:4-7) is amended to read
10 as follows:

11 2. There is established the New Jersey Earned Income Tax
12 Credit program in the Division of Taxation in the Department of the
13 Treasury.

14 a. (1) A resident individual who is eligible for a credit under
15 section 32 of the federal Internal Revenue Code of 1986 (26 U.S.C.
16 s32) [with gross income of \$20,000 or less for the taxable year who
17 files as a head of household or surviving spouse for federal income
18 tax purposes for the taxable year, or married resident individuals
19 with combined gross income of \$20,000 or less for the taxable year
20 who file a joint return for federal income tax purposes for the
21 taxable year,] shall be allowed a credit for the taxable year equal to
22 a percentage, as provided in paragraph (2) of this subsection, of the
23 federal earned income tax credit allowed to and claimed by the
24 individual or by the married individuals filing a joint return under
25 section 32 of the federal Internal Revenue Code of 1986[,] (26
26 U.S.C. s.32 [,]) for the same taxable year for which a credit is
27 claimed pursuant to this section, subject to the restrictions of this
28 subsection and subsections b., c., d. and e. of this section.

29 (2) For the purposes of the calculation of the New Jersey earned
30 income tax credit, the percentage of the federal earned income tax
31 credit referred to in paragraph (1) of this subsection shall be:

32 (a) 10% for the taxable year beginning on or after January 1,
33 2000, but before January 1, 2001;

34 (b) 15% for the taxable year beginning on or after January 1,
35 2001, but before January 1, 2002;

36 (c) 17.5% for the taxable year beginning on or after January 1,
37 2002, but before January 1, 2003; [and]

38 (d) 20% for taxable years beginning on or after January 1, 2003,
39 but before January 1, 2008

40 (e) 22.5% for taxable years beginning on or after January 1,
41 2008 but before January 1, 2009; and

42 (f) 25% for taxable years beginning on or after January 1, 2009.

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

Matter underlined thus is new matter.

1 (3) To qualify for the New Jersey earned income tax credit【:

2 (a) the claimant's federal earned income tax credit for the
3 taxable year must be a credit that is based on having at least one
4 "qualifying child" within the meaning of section 32 of the federal
5 Internal Revenue Code of 1986, 26 U.S.C.s.32; and

6 (b)】 , if the claimant is married, except for a claimant who files
7 as a head of household or surviving spouse for federal income tax
8 purposes for the taxable year, the claimant shall file a joint return or
9 claim for the credit.

10 【(4)As used in this section, "gross income" means gross income
11 required to be reported pursuant to the "New Jersey Gross Income
12 Tax Act," N.J.S.54A:1-1 et seq., other than income excludable from
13 the gross income tax return but before reduction thereof by any
14 applicable exemptions, deductions and credits received during the
15 taxable year by the claimant individual or the claimant married
16 individuals filing a joint return. In the case of a part-year resident,
17 gross income means gross income that a part-year resident would
18 have reported if the part-year resident had been a resident for the
19 entire taxable year.】

20 b. In the case of a part-year resident claimant, the amount of the
21 credit allowed pursuant to this section shall be pro-rated, based upon
22 that proportion which the total number of months of the claimant's
23 residency in the taxable year bears to 12 in that period. For this
24 purpose, 15 days or more shall constitute a month.

25 c. The amount of the credit allowed pursuant to this section
26 shall be applied against the tax otherwise due under N.J.S.54A:-1-1
27 et seq., after all other credits and payments. If the credit exceeds the
28 amount of tax otherwise due, that amount of excess shall be an
29 overpayment for the purposes of N.J.S.54A:9-7; provided however,
30 that subsection (f) of N.J.S.54A:9-7 shall not apply. The credit
31 provided under this section as a credit against the tax otherwise due
32 and the amount of the credit treated as an overpayment shall be
33 treated as a credit towards or overpayment of gross income tax,
34 subject to all provisions of N.J.S.54A:1-1 et seq., except as may be
35 otherwise specifically provided in P.L.2000, c.80 (C.54A:4-6 et al.).

36 d. The Director of the Division of Taxation in the Department
37 of the Treasury shall have discretion to establish a program for the
38 distribution of earned income tax credits pursuant to the provisions
39 of this section.

40 e. Any earned income tax credit pursuant to this section shall
41 not be taken into account as income or receipts for purposes of
42 determining the eligibility of an individual for benefits or assistance
43 or the amount or extent of benefits or assistance under any State
44 program and, to the extent permitted by federal law, under any State
45 program financed in whole or in part with federal funds.

46 (cf: P.L.2002, c.80, s.2.)

1 2. This act shall take effect immediately and apply to taxable
2 years beginning on or after January 1, 2007.

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STATEMENT

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7 This bill expands and enhances the benefit provided under the
8 existing State Earned Income Credit (EIC) program as proposed in
9 the Governor's FY2008 Budget Recommendation.

10 Specifically, the bill would enable all individuals eligible to
11 receive a benefit under the federal Earned Income Tax Credit
12 (EITC) program to participate in the State EIC program. Currently,
13 individuals who are eligible for the federal program but who do not
14 have dependent children cannot participate in the State program.
15 Moreover, while the federal program phases out at an income limit
16 of \$38,348 for individuals with two or more children (an amount
17 which is adjusted annually for inflation), the current State EIC has a
18 fixed eligibility threshold of \$20,000, the only State program to
19 impose an income eligibility threshold below federal program limits.
20 By extending the State EIC to both individuals without dependent
21 children as well as those earning above \$20,000 in income, this bill
22 has the potential to more than double the number of taxpayers
23 receiving an EIC. According to Division of Taxation data some
24 213,000 taxpayers received a State EIC benefit during Tax Year
25 2004, while 497,000 taxpayers participated in the federal EITC
26 program during the same period.

27 In addition to expanding program eligibility, the bill also
28 increases, on a phased-in basis over three years, the State benefit
29 amount to 25 percent of the federal benefit by Tax Year 2010.
30 Currently, the State EIC provides a refundable earned income tax
31 credit under the New Jersey gross income tax equal to 20 percent of
32 the federal EITC. Under this bill, the State benefit amount would
33 increase from 20 percent in FY2008 (TY 2007) to 22.5 percent in
34 FY2009 (TY2008) and finally 25 percent in FY2010 (TY2009).

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39 Expands program eligibility and enhances benefit amount under
40 the New Jersey earned income tax credit program.

SENATE, No. 2647

STATE OF NEW JERSEY

212th LEGISLATURE

INTRODUCED MAY 14, 2007

Sponsored by:

Senator RONALD L. RICE

District 28 (Essex)

Senator SHIRLEY K. TURNER

District 15 (Mercer)

Assemblywoman BONNIE WATSON COLEMAN

District 15 (Mercer)

Assemblyman LOUIS M. MANZO

District 31 (Hudson)

Assemblyman LOUIS D. GREENWALD

District 6 (Camden)

Assemblyman WILFREDO CARABALLO

District 29 (Essex and Union)

Assemblyman WILLIAM D. PAYNE

District 29 (Essex and Union)

Assemblyman JOHN J. BURZICHELLI

District 3 (Salem, Cumberland and Gloucester)

Assemblyman JOSEPH CRYAN

District 20 (Union)

Assemblywoman JOAN M. QUIGLEY

District 32 (Bergen and Hudson)

Assemblyman GARY S. SCHAER

District 36 (Bergen, Essex and Passaic)

Assemblyman ALFRED E. STEELE

District 35 (Bergen and Passaic)

Assemblyman JOSEPH VAS

District 19 (Middlesex)

Assemblyman DOUGLAS H. FISHER

District 3 (Salem, Cumberland and Gloucester)

Assemblyman NEIL M. COHEN

District 20 (Union)

Assemblyman JIM WHELAN

District 2 (Atlantic)

Co-Sponsored by:

Assemblymen Van Drew, Albano, Panter, Assemblywoman Pou,

Assemblymen McKeon, Scalera, Gordon, Assemblywoman Voss,

**Assemblymen Moriarty, Conaway, Connors and Assemblywoman
Greenstein**

SYNOPSIS

Expands program eligibility and enhances benefit amount under the New Jersey earned income tax credit program.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 6/22/2007)

S2647 RICE, TURNER

2

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20 who file a joint return for federal income tax purposes for the
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42 program financed in whole or in part with federal funds.

43 (cf: P.L.2002, c.80, s.2.)

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45 2. This act shall take effect immediately and apply to taxable
46 years beginning on or after January 1, 2007.

STATEMENT

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Specifically, the bill would enable all individuals eligible to receive a benefit under the federal Earned Income Tax Credit (EITC) program to participate in the State EIC program. Currently, individuals who are eligible for the federal program but who do not have dependent children cannot participate in the State program. Moreover, while the federal program phases out at an income limit of \$38,348 for individuals with two or more children (an amount which is adjusted annually for inflation), the current State EIC has a fixed eligibility threshold of \$20,000, the only State program to impose an income eligibility threshold below federal program limits. By extending the State EIC to both individuals without dependent children as well as those earning above \$20,000 in income, this bill has the potential to more than double the number of taxpayers receiving an EIC. According to Division of Taxation data some 213,000 taxpayers received a State EIC benefit during Tax Year 2004, while 497,000 taxpayers participated in the federal EITC program during the same period.

In addition to expanding program eligibility, the bill also increases, on a phased-in basis over three years, the State benefit amount to 25 percent of the federal benefit by Tax Year 2010. Currently, the State EIC provides a refundable earned income tax credit under the New Jersey gross income tax equal to 20 percent of the federal EITC. Under this bill, the State benefit amount would increase from 20 percent in FY2008 (TY 2007) to 22.5 percent in FY2009 (TY2008) and finally 25 percent in FY2010 (TY2009).

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2647

STATE OF NEW JERSEY

DATED: JUNE 14, 2007

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 2647.

This bill expands and enhances the benefit provided under the existing State Earned Income Credit (EIC) program as proposed in the Governor's FY2008 Budget Recommendation.

Specifically, the bill enables all individuals eligible to receive a benefit under the federal Earned Income Tax Credit (EITC) program to participate in the State EIC program. Currently, individuals who are eligible for the federal program but without dependent children cannot participate in the State program. Moreover, while the federal program phases out at an income limit of \$38,348 for individuals with two or more children (an amount which is adjusted annually for inflation), the current State EIC has a fixed eligibility threshold of \$20,000, the only State program to impose an income eligibility threshold below federal program limits. By extending the State EIC to both individuals without dependent children as well as those earning above \$20,000 in income, this bill has the potential to more than double the number of taxpayers receiving an EIC. According to Division of Taxation data some 213,000 taxpayers received a State EIC benefit during Tax Year 2004, while 497,000 taxpayers participated in the federal EITC program during the same period.

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FISCAL IMPACT:

The Office of Legislative Services (OLS) projects that the incremental cost of implementing this legislation will be \$35.4 million in FY 2008 (TY2007), \$58.7 million in FY2009 (TY2008) and \$80.4 million in FY2010 (TY2009).

The OLS estimate is based on the most recent (TY2004) federal Internal Revenue Service Statistics of Income data which indicate that

more than 497,000 New Jersey families claimed \$858 million in TY2004 under the federal Earned Income Tax Credit (EITC) program, of which \$669 million was paid to taxpayers with incomes below \$20,000, and \$189 million was paid to taxpayers with incomes above \$20,000. Using these data, the OLS is able to calculate the total amount of federal EITC claims for subsequent tax years by assuming an inflation rate of three percent. Applying to these data the proposed increase in the State benefit amount (from 20% to 25% over three years) yields an estimate of total State EIC program costs, assuming full (100%) participation in the State program by New Jersey taxpayers receiving the federal credit. However, based on actual program participation rates (which have averaged roughly 82 percent during the first four years of the State program) the OLS estimate assumes a participation rate of 85% to arrive at the estimated marginal costs summarized above (and in the table on the following page).

The Executive has not submitted a fiscal note for this bill. However, at the time the Governor's FY2008 Budget was proposed, the Budget in Brief projected that the incremental cost of expanding the EIC program would be approximately \$64 million above current total program expenditures (which are approximately \$121 million in the current fiscal year based on TY2006). Moreover, the Executive projected that the incremental cost of the program would increase to \$91 million in FY2009 and \$118 million in FY2010 as the State benefit increases to 22.5% and 25%, respectively, of the federal credit amount. These Executive estimates assumed that the federal program would grow at about a rate of 3% annually and that 100% of all those eligible to participate in the federal program would participate in the State program.

Since the publication of the Budget in Brief, however, the Executive has revised its estimate, and now concurs with the OLS estimate outlined above. The OLS estimate was originally included in the "OLS Analysis of the New Jersey State Budget: Tax and Revenue Outlook for FY 2007 - 2008," released in March 2007.

STATE EARNED INCOME CREDIT PROGRAM								
Taxpayers By Income	Benefit Amount to New Jersey Taxpayers from Federal Earned Income Tax Credit* (in millions)							
	TY 2002 (Actual)	2003 (Actual)	2004 (Actual)	2005 (est.)	2006 (est.)	2007 (est.)	2008 (est.)	2009 (est.)
All Taxpayers	\$811.7	\$838.2	\$858.0	\$883.7	\$910.3	\$937.6	\$965.7	\$994.7
Under \$20,000	\$637.8	\$653.8	\$669.2	\$689.3	\$710.0	\$731.3	\$753.2	\$775.8
Over \$20,000	\$173.9	\$184.4	\$188.8	\$194.4	\$200.3	\$206.3	\$212.5	\$218.8
Cost of State Earned Income Credit (in millions)								
	State FY2003	State FY2004	State FY2005	State FY2006	State FY2007	State FY2008	State FY2009	State FY2010
State benefit as % of federal	20%	20%	20%	20%	20%	20%	22.5%	25%
Current law, Gross EIC cost	\$84.0 (Actual)	\$115.2 (Actual)	\$113.5 (Actual)	\$113.7 (Actual)	\$121.0 est.	\$123.0 assuming no changes	\$126.0 assuming no changes	\$131.0 assuming no changes
Enhanced EIC, Gross cost					OLS estimate	\$159.4	\$184.7	\$221.4
TANF offset amount	\$70.0 (Actual)	\$86.0 (Actual)	\$18.4 (Actual)	\$18.4 (Actual)	\$18.4 (est.)	\$18.4 (est.)	\$18.4 (est.)	\$18.4 (est.)
Current NET General Fund cost	\$14.0	\$29.2	\$95.1	\$95.3	\$104.6	\$104.6	\$107.6	\$112.6
Enhanced EIC, NET of TANF					OLS	\$141.0	\$166.3	\$203.0
Incremental Cost of Enhanced EIC					OLS	\$36.4	\$58.7	\$90.4
<p>*Actual data for 2002 - 2004 from federal Internal Revenue Service SOI publications. Data for subsequent years is projected assuming a 3% annual growth in the federal program.</p> <p>OLS estimates for FY2008 - FY2010 assume an 85 percent program participation rate.</p> <p>"All Taxpayers" includes single and married taxpayer both with and without dependent children.</p>								

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 2647
STATE OF NEW JERSEY
212th LEGISLATURE

DATED: JULY 9, 2007

SUMMARY

Synopsis: Expands program eligibility and enhances benefit amount under the New Jersey earned income tax credit program.

Type of Impact: Continuing loss of revenue to the Property Tax Relief Fund.

Agencies Affected: Division of Taxation, Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
State Revenue	(\$35,400,000)	(\$58,700,000)	(\$80,400,000)

- By extending the State Earned Income Credit (EIC) program to both individuals without dependent children as well as those earning above \$20,000 in income, this bill has the potential to more than double the number of taxpayers receiving a State EIC. According to Division of Taxation data, some 213,000 taxpayers received a State EIC benefit during TY 2004, while 497,000 taxpayers participated in the federal Earned Income Tax Credit program during the same period.
- The provisions of the bill are applicable beginning immediately in Taxable Year 2007 (State Fiscal Year 2008).

BILL DESCRIPTION

Senate Bill No. 2647 of 2007 expands and enhances the benefit provided under the existing State Earned Income Credit (EIC) program as proposed in the Governor's FY 2008 Budget Recommendation.

Specifically, the bill would enable all individuals eligible to receive a benefit under the federal Earned Income Tax Credit (EITC) program to participate in the State EIC program. Currently, individuals who are eligible for the federal program but who do not have dependent children cannot participate in the State program. Moreover, while the federal program phases out at an income limit of \$38,348 for individuals with two or more children (an amount which is

adjusted annually for inflation), the current State EIC has a fixed eligibility threshold of \$20,000, the only State program to impose an income eligibility threshold below federal program limits.

In addition to expanding program eligibility, the bill also increases, on a phased-in basis over three years, the State benefit amount to 25 percent of the federal benefit by Tax Year 2010. Currently, the State EIC provides a refundable earned income tax credit under the New Jersey gross income tax equal to 20 percent of the federal EITC. Under this bill, the State benefit amount would increase from 20 percent in FY 2008 (TY 2007) to 22.5 percent in FY 2009 (TY 2008) and finally 25 percent in FY 2010 (TY 2009).

Under the bill the State benefit, like the federal benefit credit amount, increases annually with inflation. For illustrative purposes, the Office of Legislative Services (OLS) has calculated approximate State credit amounts, based on income and family size, as follows:

Estimated Earned Income Credit Amount
(For illustration only)

FEDERAL CREDIT AMOUNTS BY FAMILY INCOME**		PROPOSED STATE EIC BASED ON INFLATION ADJUSTED FEDERAL CREDIT		
Married or single w/2 or + children	Federal credit TY 2006	FY 2008 (20%)	FY 2009 (22.5%)	FY 2010 (25%)
\$10,000	\$3,990	\$819	\$945	\$1077
\$15,000	\$4,536	\$931	\$1074	\$1225
\$20,000	\$3,869	\$794	\$916	\$1045
\$25,000	\$2,816	\$578	\$667	\$760
\$30,000	\$1,763	\$362	\$418	\$476
\$35,000	\$710	\$146	\$168	\$192
\$38,000	\$79	\$16	\$19	\$21
Married or single filer w/1 child				
\$10,000	\$2,747	\$564	\$651	\$742
\$15,000	\$2,747	\$564	\$651	\$742
\$20,000	\$2,241	\$460	\$531	\$605
\$25,000	\$1,442	\$296	\$342	\$389
\$30,000	\$643	\$132	\$152	\$174
\$34,000	\$4	\$1	\$1	\$1
Married filer, no dependents				
\$10,000	\$317	\$65	\$75	\$86
Single filer, no dependents				
\$10,000	\$164	\$34	\$39	\$44

Notes: Italicized benefit amounts reflect new participant categories under expanded State program.

For TY 2006, the Federal EITC phases out at: @ \$34,000 for married and single filers with one child; \$38,348 for married and single filers with two or more children; \$12,000 for single filers with no children; and \$14,100 for married filers with no children.

The Federal credit is adjusted annually for inflation. The projections above assume an annual inflation rate of 2.6 percent through FY 2010.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a fiscal note for this bill. However, at the time the Governor's FY 2008 Budget was proposed, the Budget in Brief projected that the incremental cost of expanding the EIC program would be approximately \$64 million above current total program expenditures (which are approximately \$121 million in the current fiscal year based on TY 2006). Moreover, the Executive projected that the incremental cost of the program would increase to \$91 million in FY 2009 and \$118 million in FY 2010 as the State benefit increases to 22.5 percent and 25 percent, respectively, of the federal credit amount. These Executive estimates assumed that the federal program would grow at about a rate of 3 percent annually and that 100 percent of all those eligible to participate in the federal program would participate in the State program.

Since the publication of the Budget in Brief, however, the Executive has revised its estimate, and now concurs with the OLS estimate outlined below. The OLS estimate was originally included in the "OLS Analysis of the New Jersey State Budget: Tax and Revenue Outlook for FY 2007 - 2008," released in March 2007.

OFFICE OF LEGISLATIVE SERVICES

The OLS projects that the incremental cost of implementing this legislation will be \$35.4 million in FY 2008 (TY 2007), \$58.7 million in FY 2009 (TY 2008) and \$80.4 million in FY 2010 (TY 2009).

The OLS estimate is based on the most recent (TY 2004) federal Internal Revenue Service Statistics of Income data which indicate that more than 497,000 New Jersey families claimed \$858 million in TY 2004 under the federal Earned Income Tax Credit (EITC) program, of which \$669 million was paid to taxpayers with incomes below \$20,000, and \$189 million was paid to taxpayers with incomes above \$20,000. Using these data, the OLS is able to calculate the total amount of federal EITC claims for subsequent tax years by assuming an inflation rate of three percent. Applying to the adjusted data the proposed increase in the State benefit amount (from 20 percent to 25 percent over three years) yields an estimate of total State EIC program costs, assuming full (100 percent) participation in the State program by New Jersey taxpayers receiving the federal credit. Based on actual program participation rates (which have averaged roughly 82 percent during the first four years of the State program, see Table 1 below), however, this estimate is discounted by 15 percent to arrive at the projected marginal costs summarized above (and below in Table 2 on page 5 of this estimate).

(Table 1) State EIC Participation Rates					
	A	B	C	D	E
	# of NJ taxpayers receiving federal EITC	# of NJ federal EITC participants < \$20,000	# from Column B eligible for State EIC (Est.)	# of State EIC participants	Estimated participation rate for State EIC
TY 2001	452,848	329,540	<i>250,450</i>	198,700	79.34%
TY 2002	486,811	338,255	<i>257,074</i>	218,400	84.96%
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TY 2005	N/A to date	N/A	N/A	204,190	
<p>--Sources and Notes: Actual numbers appear in regular font, <i>estimates are italicized.</i></p> <p>--Federal data from IRS Statistics of Income publications. State data ("Column D") is from N.J. Department of the Treasury Statistic of Income publications, or as reported by Treasury to OLS.</p> <p>--"Column C" excludes those single and married taxpayers in "Column B" who do not have dependent children.</p> <p>Figures in "Column C" are estimated based on 2005 U.S. Census data (American Community Survey series) which indicate that approximately 76 percent of families living in poverty in New Jersey have dependent children.</p>					

Table 2: STATE EARNED INCOME CREDIT PROGRAM								
Taxpayers By Income	Benefit Amount to NJ Taxpayers from Federal Earned Income Tax Credit* (in millions)							
	TY 2002 (Actual)	2003 (Actual)	2004 (Actual)	2005 (est.)	2006 (est.)	2007 (est.)	2008 (est.)	2009 (est.)
All Taxpayers	\$811.7	\$838.2	\$858.0	\$883.7	\$910.3	\$937.6	\$965.7	\$994.7
Under \$20,000	\$637.8	\$653.8	\$669.2	\$689.3	\$710.0	\$731.3	\$753.2	\$775.8
Over \$20,000	\$173.9	\$184.4	\$188.8	\$194.4	\$200.3	\$206.3	\$212.5	\$218.8
Cost of State Earned Income Credit (in millions)								
	State FY2003	State FY2004	State FY2005	State FY2006	State FY2007	State FY2008	State FY2009	State FY2010
State benefit as % of federal	20%	20%	20%	20%	20%	20%	22.5%	25%
Current law, Gross EIC cost	\$84.0 (Actual)	\$115.2 (Actual)	\$113.5 (Actual)	\$113.7 (Actual)	\$121.0 est.	\$123.0 assuming no changes	\$126.0 assuming no changes	\$131.0 assuming no changes
Enhanced EIC, Gross cost					OLS estimate	\$159.4	\$184.7	\$221.4
TANF offset amount	\$70.0 (Actual)	\$86.0 (Actual)	\$18.4 (Actual)	\$18.4 (Actual)	\$18.4 (est.)	\$18.4 (est.)	\$18.4 (est.)	\$18.4 (est.)
Current NET General Fund cost	\$14.0	\$29.2	\$95.1	\$95.3	\$104.6	\$104.6	\$107.6	\$112.6
Enhanced EIC, NET of TANF					OLS	\$141.0	\$166.3	\$203.0
Incremental Cost of Enhanced EIC					OLS	\$36.4	\$58.7	\$90.4
<p>*Actual data for 2002 - 2004 from federal Internal Revenue Service SOI publications. Data for subsequent years is projected assuming a 3 percent annual growth in the federal program.</p> <p>OLS estimates for FY 2008 – FY 2010 assume an 85 percent program participation rate.</p> <p>"All Taxpayers" includes single and married taxpayer both with and without dependent children.</p>								

Section: Revenue, Finance and Appropriations

*Analyst: Catherine Z. Brennan
Lead Fiscal Analyst*

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

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

ASSEMBLY, No. 5001

STATE OF NEW JERSEY

212th LEGISLATURE

INTRODUCED JUNE 14, 2007

Sponsored by:

Assemblywoman BONNIE WATSON COLEMAN

District 15 (Mercer)

Assemblyman LOUIS M. MANZO

District 31 (Hudson)

Assemblyman LOUIS D. GREENWALD

District 6 (Camden)

Assemblyman WILFREDO CARABALLO

District 29 (Essex and Union)

Assemblyman WILLIAM D. PAYNE

District 29 (Essex and Union)

Assemblyman JOHN J. BURZICHELLI

District 3 (Salem, Cumberland and Gloucester)

Assemblyman JOSEPH CRYAN

District 20 (Union)

Assemblywoman JOAN M. QUIGLEY

District 32 (Bergen and Hudson)

Assemblyman GARY S. SCHAER

District 36 (Bergen, Essex and Passaic)

Assemblyman ALFRED E. STEELE

District 35 (Bergen and Passaic)

Assemblyman JOSEPH VAS

District 19 (Middlesex)

Assemblyman DOUGLAS H. FISHER

District 3 (Salem, Cumberland and Gloucester)

Assemblyman NEIL M. COHEN

District 20 (Union)

Assemblyman JIM WHELAN

District 2 (Atlantic)

Co-Sponsored by:

Assemblymen Van Drew, Albano, Panter, Assemblywoman Pou,

Assemblymen McKeon, Scalera, Gordon, Assemblywoman Voss,

Assemblymen Moriarty, Conaway, Connors and Assemblywoman

Greenstein

SYNOPSIS

Expands program eligibility and enhances benefit amount under the New Jersey earned income tax credit program.

CURRENT VERSION OF TEXT

As introduced.

(Sponsorship Updated As Of: 6/22/2007)

A5001 WATSON COLEMAN, MANZO

2

1 AN ACT expanding eligibility for the New Jersey earned income tax
2 credit program to equal eligibility under the federal earned
3 income tax program and enhancing the benefit amount, and
4 amending P.L.2000, c.80.

5

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

8

9 1. Section 2 of P.L.2000, c.80 (C.54A:4-7) is amended to read
10 as follows:

11 2. There is established the New Jersey Earned Income Tax
12 Credit program in the Division of Taxation in the Department of the
13 Treasury.

14 a. (1) A resident individual who is eligible for a credit under
15 section 32 of the federal Internal Revenue Code of 1986 (26 U.S.C.
16 s32) **[**with gross income of \$20,000 or less for the taxable year who
17 files as a head of household or surviving spouse for federal income
18 tax purposes for the taxable year, or married resident individuals
19 with combined gross income of \$20,000 or less for the taxable year
20 who file a joint return for federal income tax purposes for the
21 taxable year,**]** shall be allowed a credit for the taxable year equal to
22 a percentage, as provided in paragraph (2) of this subsection, of the
23 federal earned income tax credit allowed to and claimed by the
24 individual or by the married individuals filing a joint return under
25 section 32 of the federal Internal Revenue Code of 1986**[,]** (26
26 U.S.C.s.32 **[,]**) for the same taxable year for which a credit is
27 claimed pursuant to this section, subject to the restrictions of this
28 subsection and subsections b., c., d. and e. of this section.

29 (2) For the purposes of the calculation of the New Jersey earned
30 income tax credit, the percentage of the federal earned income tax
31 credit referred to in paragraph (1) of this subsection shall be:

32 (a) 10% for the taxable year beginning on or after January 1,
33 2000, but before January 1, 2001;

34 (b) 15% for the taxable year beginning on or after January 1,
35 2001, but before January 1, 2002;

36 (c) 17.5% for the taxable year beginning on or after January 1,
37 2002, but before January 1, 2003; **[and]**

38 (d) 20% for taxable years beginning on or after January 1, 2003,
39 but before January 1, 2008

40 (e) 22.5% for taxable years beginning on or after January 1, 2008
41 but before January 1, 2009; and

42 (f) 25% for taxable years beginning on or after January 1, 2009.

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

Matter underlined thus is new matter.

1 (3) To qualify for the New Jersey earned income tax credit【:

2 (a) the claimant's federal earned income tax credit for the
3 taxable year must be a credit that is based on having at least one
4 "qualifying child" within the meaning of section 32 of the federal
5 Internal Revenue Code of 1986, 26 U.S.C.s.32; and

6 (b)】 , if the claimant is married, except for a claimant who files
7 as a head of household or surviving spouse for federal income tax
8 purposes for the taxable year, the claimant shall file a joint return or
9 claim for the credit.

10 【(4)As used in this section, "gross income" means gross income
11 required to be reported pursuant to the "New Jersey Gross Income
12 Tax Act," N.J.S.54A:1-1 et seq., other than income excludable from
13 the gross income tax return but before reduction thereof by any
14 applicable exemptions, deductions and credits received during the
15 taxable year by the claimant individual or the claimant married
16 individuals filing a joint return. In the case of a part-year resident,
17 gross income means gross income that a part-year resident would
18 have reported if the part-year resident had been a resident for the
19 entire taxable year.】

20 b. In the case of a part-year resident claimant, the amount of
21 the credit allowed pursuant to this section shall be pro-rated, based
22 upon that proportion which the total number of months of the
23 claimant's residency in the taxable year bears to 12 in that period.
24 For this purpose, 15 days or more shall constitute a month.

25 c. The amount of the credit allowed pursuant to this section
26 shall be applied against the tax otherwise due under N.J.S.54A:-1-1
27 et seq., after all other credits and payments. If the credit exceeds
28 the amount of tax otherwise due, that amount of excess shall be an
29 overpayment for the purposes of N.J.S.54A:9-7; provided however,
30 that subsection (f) of N.J.S.54A:9-7 shall not apply. The credit
31 provided under this section as a credit against the tax otherwise due
32 and the amount of the credit treated as an overpayment shall be
33 treated as a credit towards or overpayment of gross income tax,
34 subject to all provisions of N.J.S.54A:1-1 et seq., except as may be
35 otherwise specifically provided in P.L.2000, c.80 (C.54A:4-6 et al.).

36 d. The Director of the Division of Taxation in the Department
37 of the Treasury shall have discretion to establish a program for the
38 distribution of earned income tax credits pursuant to the provisions
39 of this section.

40 e. Any earned income tax credit pursuant to this section shall
41 not be taken into account as income or receipts for purposes of
42 determining the eligibility of an individual for benefits or assistance
43 or the amount or extent of benefits or assistance under any State
44 program and, to the extent permitted by federal law, under any State
45 program financed in whole or in part with federal funds.

46 (cf: P.L.2002, c.80, s.2.)

1 2. This act shall take effect immediately and apply to taxable
2 years beginning on or after January 1, 2007.

3

4

5

STATEMENT

6

7 This bill expands and enhances the benefit provided under the
8 existing State Earned Income Credit (EIC) program as proposed in
9 the Governor's FY2008 Budget Recommendation.

10 Specifically, the bill would enable all individuals eligible to
11 receive a benefit under the federal Earned Income Tax Credit
12 (EITC) program to participate in the State EIC program. Currently,
13 individuals who are eligible for the federal program but who do not
14 have dependent children cannot participate in the State program.
15 Moreover, while the federal program phases out at an income limit
16 of \$38,348 for individuals with two or more children (an amount
17 which is adjusted annually for inflation), the current State EIC has a
18 fixed eligibility threshold of \$20,000, the only State program to
19 impose an income eligibility threshold below federal program
20 limits. By extending the State EIC to both individuals without
21 dependent children as well as those earning above \$20,000 in
22 income, this bill has the potential to more than double the number
23 of taxpayers receiving an EIC. According to Division of Taxation
24 data some 213,000 taxpayers received a State EIC benefit during
25 Tax Year 2004, while 497,000 taxpayers participated in the federal
26 EITC program during the same period.

27 In addition to expanding program eligibility, the bill also
28 increases, on a phased-in basis over three years, the State benefit
29 amount to 25 percent of the federal benefit by Tax Year 2010.
30 Currently, the State EIC provides a refundable earned income tax
31 credit under the New Jersey gross income tax equal to 20 percent of
32 the federal EITC. Under this bill, the State benefit amount would
33 increase from 20 percent in FY2008 (TY2007) to 22.5 percent in
34 FY2009 (TY2008) and finally 25 percent in FY2010 (TY2009).

ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 5001

STATE OF NEW JERSEY

DATED: JUNE 18, 2007

The Assembly Budget Committee reports favorably Assembly Bill No. 5001.

The bill expands and enhances the benefit provided under the existing State Earned Income Credit (EIC) program as proposed in the Governor's FY2008 Budget Recommendation.

Specifically, the bill would enable all individuals eligible to receive a benefit under the federal Earned Income Tax Credit (EITC) program to participate in the State EIC program. Currently, individuals who are eligible for the federal program but who do not have dependent children cannot participate in the State program. Moreover, while the federal program phases out at an income limit of \$38,348 for individuals with two or more children (an amount which is adjusted annually for inflation), the current State EIC has a fixed eligibility threshold of \$20,000, the only State program to impose an income eligibility threshold below federal program limits. By extending the State EIC to both individuals without dependent children as well as those earning above \$20,000 in income, this bill has the potential to more than double the number of taxpayers receiving an EIC. According to Division of Taxation data some 213,000 taxpayers received a State EIC benefit during Tax Year 2004, while 497,000 taxpayers participated in the federal EITC program during the same period.

In addition to expanding program eligibility, the bill also increases, on a phased-in basis over three years, the State benefit amount to 25 percent of the federal benefit by Tax Year 2010. Currently, the State EIC provides a refundable earned income tax credit under the New Jersey gross income tax equal to 20 percent of the federal EITC. Under this bill, the State benefit amount would increase from 20 percent in FY2008 (TY 2007) to 22.5 percent in FY2009 (TY2008) and finally 25 percent in FY2010 (TY2009).

As reported, this bill is identical to Senate Bill No. 2647.

FISCAL IMPACT:

The Office of Legislative Services (OLS) projects that the incremental cost of implementing this legislation will be \$35.4 million in FY 2008 (TY2007), \$58.7 million in FY2009 (TY2008) and \$80.4 million in FY2010 (TY2009).

The OLS estimate is based on the most recent (TY2004) federal Internal Revenue Service Statistics of Income data which indicate that more than 497,000 New Jersey families claimed \$858 million in TY2004 under the federal Earned Income Tax Credit (EITC) program, of which \$669 million was paid to taxpayers with incomes below \$20,000, and \$189 million was paid to taxpayers with incomes above \$20,000. Using these data, the OLS is able to calculate the total amount of federal EITC claims for subsequent tax years by assuming an inflation rate of three percent. Applying to these data the proposed increase in the State benefit amount (from 20% to 25% over three years) yields an estimate of total State EIC program costs, assuming full (100%) participation in the State program by New Jersey taxpayers receiving the federal credit. However, based on actual program participation rates (which have averaged roughly 82 percent during the first four years of the State program) the OLS estimate assumes a participation rate of 85% to arrive at the estimated marginal costs summarized above (and in the table on the following page).

The Executive has not submitted a fiscal note for this bill. However, at the time the Governor's FY2008 Budget was proposed, the Budget in Brief projected that the incremental cost of expanding the EIC program would be approximately \$64 million above current total program expenditures (which are approximately \$121 million in the current fiscal year based on TY2006). Moreover, the Executive projected that the incremental cost of the program would increase to \$91 million in FY2009 and \$118 million in FY2010 as the State benefit increases to 22.5% and 25%, respectively, of the federal credit amount. These Executive estimates assumed that the federal program would grow at about a rate of 3% annually and that 100% of all those eligible to participate in the federal program would participate in the State program.

However, the Executive Branch has revised its estimate and now concurs with the OLS estimate outlined above.

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 5001
STATE OF NEW JERSEY
212th LEGISLATURE

DATED: JULY 9, 2007

SUMMARY

Synopsis: Expands program eligibility and enhances benefit amount under the New Jersey earned income tax credit program.

Type of Impact: Continuing loss of revenue to the Property Tax Relief Fund.

Agencies Affected: Division of Taxation, Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
State Revenue	(\$35,400,000)	(\$58,700,000)	(\$80,400,000)

- By extending the State Earned Income Credit (EIC) program to both individuals without dependent children as well as those earning above \$20,000 in income, this bill has the potential to more than double the number of taxpayers receiving a State EIC. According to Division of Taxation data, some 213,000 taxpayers received a State EIC benefit during TY 2004, while 497,000 taxpayers participated in the federal Earned Income Tax Credit program during the same period.
- The provisions of the bill are applicable beginning immediately in Taxable Year 2007 (State Fiscal Year 2008).

BILL DESCRIPTION

Assembly Bill No. 5001 of 2007 expands and enhances the benefit provided under the existing State Earned Income Credit (EIC) program as proposed in the Governor's FY 2008 Budget Recommendation.

Specifically, the bill would enable all individuals eligible to receive a benefit under the federal Earned Income Tax Credit (EITC) program to participate in the State EIC program. Currently, individuals who are eligible for the federal program but who do not have dependent children cannot participate in the State program. Moreover, while the federal program phases out at an income limit of \$38,348 for individuals with two or more children (an amount which is

adjusted annually for inflation), the current State EIC has a fixed eligibility threshold of \$20,000, the only State program to impose an income eligibility threshold below federal program limits.

In addition to expanding program eligibility, the bill also increases, on a phased-in basis over three years, the State benefit amount to 25 percent of the federal benefit by Tax Year 2010. Currently, the State EIC provides a refundable earned income tax credit under the New Jersey gross income tax equal to 20 percent of the federal EITC. Under this bill, the State benefit amount would increase from 20 percent in FY 2008 (TY 2007) to 22.5 percent in FY 2009 (TY 2008) and finally 25 percent in FY 2010 (TY 2009).

Under the bill the State benefit, like the federal benefit credit amount, increases annually with inflation. For illustrative purposes, the Office of Legislative Services (OLS) has calculated approximate State credit amounts, based on income and family size, as follows:

Estimated Earned Income Credit Amount

(For illustration only)

FEDERAL CREDIT AMOUNTS BY FAMILY INCOME**		PROPOSED STATE EIC BASED ON INFLATION ADJUSTED FEDERAL CREDIT		
Married or single w/2 or + children	Federal credit TY 2006	FY 2008 (20%)	FY 2009 (22.5%)	FY 2010 (25%)
\$10,000	\$3,990	\$819	\$945	\$1077
\$15,000	\$4,536	\$931	\$1074	\$1225
\$20,000	\$3,869	\$794	\$916	\$1045
\$25,000	\$2,816	\$578	\$667	\$760
\$30,000	\$1,763	\$362	\$418	\$476
\$35,000	\$710	\$146	\$168	\$192
\$38,000	\$79	\$16	\$19	\$21
Married or single filer w/1 child				
\$10,000	\$2,747	\$564	\$651	\$742
\$15,000	\$2,747	\$564	\$651	\$742
\$20,000	\$2,241	\$460	\$531	\$605
\$25,000	\$1,442	\$296	\$342	\$389
\$30,000	\$643	\$132	\$152	\$174
\$34,000	\$4	\$1	\$1	\$1
Married filer, no dependents				
\$10,000	\$317	\$65	\$75	\$86
Single filer, no dependents				
\$10,000	\$164	\$34	\$39	\$44

Notes: Italicized benefit amounts reflect new participant categories under expanded State program.

For TY 2006, the Federal EITC phases out at: @ \$34,000 for married and single filers with one child; \$38,348 for married and single filers with two or more children; \$12,000 for single filers with no children; and \$14,100 for married filers with no children.

The Federal credit is adjusted annually for inflation. The projections above assume an annual inflation rate of 2.6 percent through FY 2010.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a fiscal note for this bill. However, at the time the Governor's FY 2008 Budget was proposed, the Budget in Brief projected that the incremental cost of expanding the EIC program would be approximately \$64 million above current total program expenditures (which are approximately \$121 million in the current fiscal year based on TY 2006). Moreover, the Executive projected that the incremental cost of the program would increase to \$91 million in FY 2009 and \$118 million in FY 2010 as the State benefit increases to 22.5 percent and 25 percent, respectively, of the federal credit amount. These Executive estimates assumed that the federal program would grow at about a rate of 3 percent annually and that 100 percent of all those eligible to participate in the federal program would participate in the State program.

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OFFICE OF LEGISLATIVE SERVICES

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Section: *Revenue, Finance and Appropriations*

Analyst: *Catherine Z. Brennan*
Lead Fiscal Analyst

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

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

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Governor Corzine Ceremonially Signs Legislation to Help Working Families

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Governor Jon S. Corzine
February 12, 2008

FOR MORE INFORMATION:

Press Office
609-777-2600

GOVERNOR CORZINE CEREMONIALLY SIGNS LEGISLATION TO HELP WORKING FAMILIES

NEWARK- While attending the 2008 opening of the Free Tax Preparation Center in Newark, Governor Jon S. Corzine today ceremonially signed two bills to assist low-and moderate-income working New Jersey families. The first bill, S-2647 expands program eligibility and enhances the benefit amount under the New Jersey Earned Income Tax Credit (EITC). The second bill, A-1698, permits free tax preparation centers (VITA sites) to offer Alternative Refund Anticipation Loans (A-RALs) to low income New Jersey filers without high fees or interest charges.

“With the expansion of the Earned Income Tax Credit, we are providing new economic opportunities to nearly 300,000 additional low- and moderate-income working families across the state,” said Governor Corzine. “By helping these families earn their way out of poverty, we are supporting self sufficiency and ensuring better lives for their children. I would encourage all eligible families to apply for these credits when they file their taxes this year.

“Low-and middle-income filers can use tax preparation centers such as this one run by Citizen Action and be guaranteed certain consumer protections without being charged excessive rates for these services.”

The EITC is a targeted income tax benefit that lessens the burden of payroll taxes for Social Security and Medicare. Under the new law, the credit is now available for married families with two or more children earning up to \$39,783 and for single parents with two or more children who earn up to \$37,783. These figures will be adjusted annually for inflation. Additionally, married workers without children who earn less than \$14,590 are now eligible to receive EITC benefits in New Jersey for the first time. Individuals without children and earning less than \$12,590 may also qualify.

This program expansion is the first step in a three-step commitment. Step two, in fiscal 2009, requires raising the benefit level from 20 percent of the federal credit to 22.5%, and step three, in fiscal 2010 involves raising the benefit level to 25 % of the federal benefit.

“The expansion of the tax credit will provide assistance for hundreds of thousands of the poorest citizens of our State,” said Senator Ronald L. Rice, (D-Essex). “In these tough financial times we need to make sure that we do not turn our backs on the poorest New Jersey families. This law will bridge the gap between classes.”

“Unfortunately, America continues to see a widening gap between the haves and the have-nots – a gap we can reduce through the EITC,” said Senator Shirley K. Turner, (D-Mercer). “By doubling the number of EITC recipients with this bill, we are undertaking the single largest anti-poverty effort since we originally adopted the EITC in 2000.”

The Alternative Rapid Anticipation Loan bill cracks down on predatory practices by companies that charge excessive costs for tax preparation and high interest Refund Anticipation Loans (RALs) to low-income workers. Tax preparers now must follow certain guidelines of professional conduct during transactions with clients. As a result, tax preparers are prohibited from requiring a client to enter into a refund anticipation loan and must be transparent about the costs involved. Tax preparers must also provide itemized statements of service charges, including charges for tax return preparation, electronic filing, and providing or facilitating a refund anticipation loan.

“Refund anticipation loans have unfairly targeted the working poor and are inherently exploitive,” said Assemblyman Doug Fisher (D-Cumberland/Salem/Gloucester). “Taxpayers looking for a speedy refund will no longer have to fear that their money will be taken away by a dishonest tax preparer charging egregious fees and sky-high interest rates.”

“Working people living on the economic edges need tax policies that provide a helping hand, not a cold shoulder,” said Assembly Majority Leader Bonnie Watson Coleman (D-Mercer). “For countless New Jerseyans, these changes will mean the difference between watching their children grow up in poverty, or giving them the opportunities they need to succeed.”

Primary sponsors of the legislation in the Senate were Senator Ronald L. Rice (D-Essex) and Senator Shirley K. Turner (D-Mercer). Assembly sponsors included Assembly Majority Leader Bonnie Watson Coleman (D-Mercer), Assemblymen Louis M. Manzo ((D-Hudson), Louis D. Greenwald (D-Camden), Wilfredo Caraballo (D-Essex), William D. Payne (D-Essex), John J. Burzichelli (D-Gloucester), Joseph Cryan (D-Union), Gary S. Schaer (D-Passaic), Alfred E. Steele (D-Passaic), Joseph Vas (D-Middlesex), Douglas H. Fisher (D-Cumberland/Salem/Gloucester), Neil M. Cohen (D-Union), Jim Whelan (D-Atlantic) and Assemblywoman Joan M. Quigley (D-Hudson/Bergen),

Primary sponsors of A-1698 were Senator Stephen M. Sweeney (D-Gloucester), Assemblyman Douglas H. Fisher (D-Cumberland/Salem/Gloucester) and Assemblywoman Nilsa Cruz-Perez (D-Camden).

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Photos from Governor Corzine's public events are available in the Governor's Newsroom section on the State of New Jersey web page, <http://www.nj.gov/governor/news/>

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Office of the Governor
PO Box 001
Trenton, NJ 08625
609-292-6000