

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 4702
STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JULY 8, 2024

SUMMARY

Synopsis: Phases out sales and use tax exemption on zero emission vehicles; repeals annual sales tax holiday for certain school supplies and sport or recreational equipment.

Type of Impact: Annual increase in State revenue collections

Agency Affected: Department of the Treasury

Fiscal Impact	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State Revenue Increase	\$109,300,000	\$267,800,000	\$368,200,000

- The Office of Legislative Services (OLS) estimates that the bill would increase State sales and use tax collections by \$109.3 million in FY 2025, \$267.8 million in FY 2026, and \$368.2 million in FY 2027. The total is the sum of two distinct components: the two-year phase-out of the existing sales and use tax exemption for sales of zero-emission vehicles and the repeal of the annual school supplies sales tax holiday.
- The OLS projects that, in FY 2025, the bill would grow State sales and use tax collections by \$74.7 million from the first stage of the phase-out of the current sales and use tax exemption for zero-emission vehicles as of October 1, 2024. Following the elimination of the exemption on July 1, 2025, the OLS estimates that State sales and use tax collections would increase by \$232.1 million in FY 2026 and \$331.4 million in FY 2027 over the current law baseline.

The OLS forecasts that repealing the annual school supplies sales tax holiday would increase sales and use tax collections by \$34.6 million in FY 2025, \$35.7 million in FY 2026, and \$36.7 million in FY 2027.

BILL DESCRIPTION

This bill phases out the existing sales and use tax exemption for sales of zero emission vehicles. The tax rate on such sales would be 3.3125 percent from October 1, 2024 through June 30, 2025; and the full statutory rate, which currently equals 6.625 percent, beginning on July 1, 2025.

Furthermore, the bill repeals the annual sales tax holiday for retail sales of computers, school computer supplies, school supplies, school instructional materials, and sport or recreational equipment. Currently, the annual sales tax holiday is in effect during the ten-day period ending on the first Monday in September.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a formal, written fiscal note on this bill. But in the FY 2025 Budget in Brief, the Executive indicated that eliminating the school supplies sales tax holiday would increase State revenue collections by \$35 million in FY 2025.

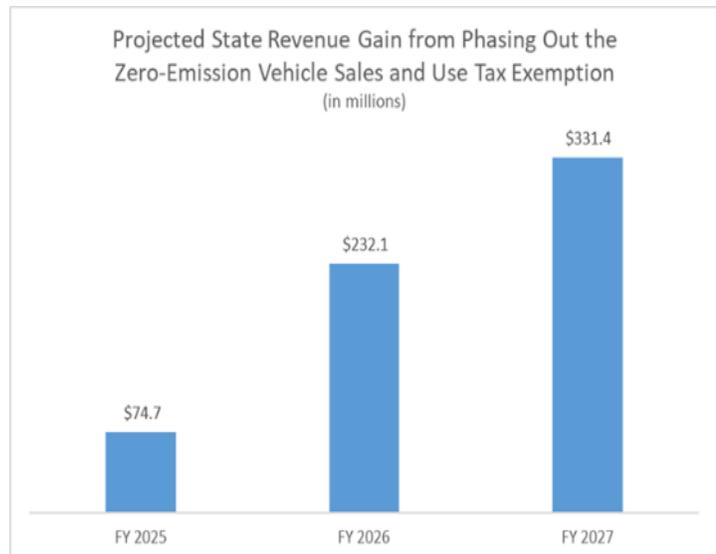
In addition, the Executive estimated in the FY 2025 Budget in Brief that State sales and use tax collections would grow by \$70 million in FY 2025 from phasing out the sales tax exemption for electric vehicles. However, the Executive assumed that the phase-out would apply to all 12 months of FY 2025 and would occur over three years starting in FY 2025. The bill, in contrast, begins to phase out the exemption on October 1, 2024 and accelerates the phase-out schedule.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill would increase State sales and use tax collections by \$109.3 million in FY 2025, \$267.8 million in FY 2026, and \$368.2 million in FY 2027. The estimate is the sum of two components: the two-year phase-out of the existing sales and use tax exemption for sales of zero-emission vehicles and the repeal of the annual school supplies sales tax holiday.

Phase-Out of Sales Tax Exemption for Zero-Emission Vehicles: Based on Department of Environmental Protection electric vehicle registration data, the OLS estimates that, in FY 2025, the partial phasing out of the sales and use tax exemption for sales of zero-emission vehicles would increase State sales and use tax collections by \$74.7 million. This estimate takes into account that the first stage of the phase-out would not take effect until October 1, 2024 and that nationwide electric vehicle sales growth slowed markedly in the first quarter of calendar year 2024.

For FY 2026 and FY 2027, the OLS estimates reflect the complete phase-out of the exemption for 12-month periods. The estimates consider current trends in New Jersey and elsewhere (e.g., electric vehicles represent 16.0 percent of total new vehicle registrations in 2025; 18.6 percent in 2026; and 21.3 percent in 2027) and assume that factors such as fiscal incentives and related changes in legislation remain unchanged. In addition, for FY 2026, the OLS assumes a one-time consumer behavior impact of shifting sales from early in FY 2026 when the full statutory tax rate would apply to electric vehicle sales to late in FY 2025, when only half the statutory rate would be imposed.



Repeal of School Supplies Sales Tax Holiday: The OLS projects that repealing the annual school supplies sales tax holiday would increase State sales and use tax revenue by \$34.6 million in FY 2025, \$35.7 million in FY 2026, and \$36.7 million in FY 2027.

Relying on FY 2024 sales and use tax collections as base data, the office uses the following method to arrive at its estimates. The OLS:

- first estimates the average daily revenue during August and September 2023, adjusted for the revenue-lowering impact of the sales tax holiday in FY 2024 (\$38.1 million);
- then applies this average to the ten-day sales and use tax holiday period, which ran from August 26, 2023 through September 4, 2023 (\$381.4 million);
- then adjusts this amount based on the proportion of total sales collections represented by North American Industry Classification System (NAICS) product categories that contain a high proportion of exempted goods (e.g., Electronics and Appliance Stores, General Merchandise Stores, Sporting Goods, etc.) – 8.8 percent – resulting in a tax revenue increase in 2023 of \$33.6 million; and
- finally assumes a three-percent annual growth rate in sales revenue, so that the FY 2025 revenue gain estimate totals \$34.6 million.

Unit: Legislative Budget and Finance Office

*Analyst: Oscar A. Mendez
Juan C. Rodriguez
Revenue and Economic Policy Analysts*

*Approved: Thomas Koenig
Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).